



QUARTERLY DISCLOSURE REPORT
MARCH 31, 2011
UNAUDITED

ARMANINO FOODS OF DISTINCTION, INC.
 QUARTERLY REPORT
 MARCH 31, 2011
 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, 2011</u>	<u>Mar 31, 2010</u>	<u>Mar 31, 2009</u>
Shares authorized	40,000,000	40,000,000	40,000,000
Shares outstanding	33,777,535	34,877,780	34,677,780
Freely tradable shares	28,346,141	30,175,480	29,378,880
# of beneficial shareholders ⁽¹⁾	1,300	1,300	1,300
# of shareholders of record	126	124	127

(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, 2010</u>	<u>Mar 31, 2009</u>	<u>Mar 31, 2008</u>
Shares authorized	10,000,000	10,000,000	10,000,000
Shares outstanding	-	-	-
Freely tradable shares	-	-	-
# of beneficial shareholders	-	-	-
# of shareholders of record	-	-	-

ARMANINO FOODS OF DISTINCTION, INC.
QUARTERLY REPORT
MARCH 31, 2011
UNAUDITED

ITEM III. INTERIM FINANCIAL STATEMENTS

CONTENTS:

	<u>PAGE</u>
— Consolidated Balance Sheet (unaudited), March 31, 2011 and December 31, 2010	3
— Consolidated Statements of Earnings (unaudited), for the three months ended March 31, 2011 and 2010	5
— Consolidated Statement of Stockholders' Equity (unaudited), for the three months ended March 31, 2011 and the year ended December 31, 2010	6
— Consolidated Statements of Cash Flows (unaudited), for the three months ended March 31, 2011 and 2010	7
— Notes to Consolidated Financial Statements (unaudited)	8

ARMANINO FOODS OF DISTINCTION, INC.
 QUARTERLY REPORT
 MARCH 31, 2011
 UNAUDITED

ITEM III. INTERIM FINANCIAL STATEMENTS -- (Continued)

BALANCE SHEET

	March 31, 2011	December 31, 2010
CURRENT ASSETS:		
Cash	\$ 1,435,206	\$ 1,274,725
Certificates of Deposit	997,792	997,792
Accounts Receivable, net	3,075,177	2,876,957
Inventories	1,779,250	1,726,579
Prepaid Expenses	213,055	208,112
Current Deferred Tax Asset	68,261	68,261
Total Current Assets	7,568,741	7,152,426
 PROPERTY AND EQUIPMENT, net		
accumulated depreciation	864,124	870,987
 OTHER ASSETS:		
Deposits	32,000	32,000
Goodwill	375,438	375,438
Deferred Tax Asset	138,887	138,887
Total Other Assets	546,325	546,325
Total Assets	\$ 8,979,190	\$ 8,569,738

The accompanying notes are an integral part of these financial statements

ARMANINO FOODS OF DISTINCTION, INC.
 QUARTERLY REPORT
 MARCH 31, 2011
 UNAUDITED

ITEM III. INTERIM FINANCIAL STATEMENTS – (Continued)

	March 31, 2011	December 31, 2010
CURRENT LIABILITIES:		
Current Portion of Line of Credit Payable	\$ 817,552	\$ 50,000
Accounts Payable - Trade	1,560,665	1,661,626
Accrued Payroll and Payroll Taxes	333,483	416,098
Dividends Payable	337,775	350,178
Accrued Income Taxes	345,562	-
	<u>3,395,037</u>	<u>2,477,902</u>
LONG-TERM LIABILITIES (Line of Credit Payable):	182,448	-
	<u>3,577,485</u>	<u>2,477,902</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, 33,777,535 and 35,017,780 shares issued and outstanding at March 31, 2011 and December 31, 2010	4,153,506	5,105,133
Additional Paid-in Capital	48,202	48,202
Deferred Compensation	(40,086)	(46,103)
Treasury Stock, at cost, 44,600, shares held at December 31, 2010,	-	(33,530)
Retained Earnings	1,240,084	1,018,135
Total Stockholders' Equity	<u>5,401,706</u>	<u>6,091,836</u>
Total Liabilities and Stockholders' Equity	<u>\$ 8,979,191</u>	<u>\$ 8,569,738</u>

The accompanying notes are an integral part of these financial statements

ARMANINO FOODS OF DISTINCTION, INC.
 QUARTERLY REPORT
 MARCH 31, 2011
 UNAUDITED

ITEM III. INTERIM FINANCIAL STATEMENTS – (Continued)

STATEMENT OF EARNINGS

	For the Three Months Ended March 31,	
	2011	2010
NET SALES	\$ 5,864,470	\$ 4,996,866
COST OF GOODS SOLD	3,822,435	3,260,593
GROSS PROFIT	<u>2,042,035</u>	<u>1,736,273</u>
OPERATING EXPENSES:		
General, administrative and selling expense	361,058	368,878
Salaries & wages	593,483	575,731
Commissions	198,955	161,944
Total Operating Expense	<u>1,153,496</u>	<u>1,106,553</u>
INCOME FROM OPERATIONS	<u>888,539</u>	<u>629,720</u>
OTHER INCOME (EXPENSE)		
Interest and Other Income	16,747	16,918
Total Other Income	<u>16,747</u>	<u>16,918</u>
INCOME BEFORE INCOME TAXES AND DISCONTINUED OPERATIONS	905,286	646,638
CURRENT TAX EXPENSE	345,561	247,689
NET INCOME	<u>\$ 559,725</u>	<u>\$ 398,949</u>
EARNINGS PER COMMON AND EQUIVALENT SHARES:		
BASIC EARNINGS PER SHARE	\$ 0.016	\$ 0.011
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING	<u>34,848,620</u>	<u>34,877,780</u>
DILUTED EARNINGS PER SHARE	\$ 0.016	\$ 0.011
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING ASSUMING DILUTION	<u>34,913,938</u>	<u>35,087,661</u>

The accompanying notes are an integral part of these financial statements

ARMANINO FOODS OF DISTINCTION, INC.
 QUARTERLY REPORT
 MARCH 31, 2011
 UNAUDITED

ITEM III. INTERIM FINANCIAL STATEMENTS – (Continued)

STATEMENT OF STOCKHOLDERS' EQUITY

	<u>Common Stock</u>		<u>Treasury Stock</u>		<u>Deferred Compensation Expense</u>	<u>Additional Paid-in Capital</u>	<u>Retained Earnings</u>
	<u>Shares</u>	<u>Amount</u>	<u>Shares</u>	<u>Amount</u>			
BALANCE , December 31, 2009	34,877,780	5,067,473	-	-	-	-	215,429
Dividends on common shares	-	-	-	-	-	-	(1,504,280)
Shares of common stock issued for options exercised at \$0.269 per share, May and July 2010	140,000	37,660	-	-	-	-	-
Repurchase of common shares at \$0.73 to \$0.77 per share in December	-	-	(44,600)	(33,530)	-	-	-
Deferred compensation on options issued to directors	-	-	-	-	(48,202)	48,202	-
Deferred compensation expense recognized for the year ended December 31, 2010	-	-	-	-	2,099	-	-
Net income for the year ended December 31, 2010	-	-	-	-	-	-	2,306,986
BALANCE , December 31, 2010	35,017,780	\$ 5,105,133	(44,600)	\$ (33,530)	\$ (46,103)	\$ 48,202	\$ 1,018,135
Dividends on common shares	-	-	-	-	-	-	(337,775)
Repurchase of common shares at \$0.70 to \$0.88 per share for the three months ended March 31, 2011	-	-	(1,295,645)	\$ (946,097)	-	-	-
Retirement of common shares on March 31, 2011	(1,340,245)	(979,627)	1,340,245	\$ 979,627	-	-	-
Shares of common stock issued for options exercised at \$0.28 per share for the three months ended March 31, 2011	100,000	28,000	-	-	-	-	-
Deferred compensation expense recognized for the three months ended March 31, 2011	-	-	-	-	\$ 6,017	-	-
Net income for the three months ended March 31, 2011	-	-	-	-	-	-	559,725
BALANCE , March 31, 2011	<u>33,777,535</u>	<u>\$ 4,153,506</u>	<u>-</u>	<u>\$ -</u>	<u>\$ (40,086)</u>	<u>\$ 48,202</u>	<u>\$ 1,240,085</u>

The accompanying notes are an integral part of these financial statements

ARMANINO FOODS OF DISTINCTION, INC.
 QUARTERLY REPORT
 MARCH 31, 2011
 UNAUDITED

ITEM III. INTERIM FINANCIAL STATEMENTS – (Continued)

CASH FLOW

	For the Three Months Ended	
	March 31,	
	<u>2011</u>	<u>2010</u>
Cash Flows from Operating Activities:		
Net Income	\$ 559,725	\$ 398,949
Adjustments to reconcile net income to net cash provided by operations:		
Depreciation and amortization	62,374	55,043
Changes in assets and liabilities:		
(Increase) decrease in accounts receivable	(198,220)	(560,644)
(Increase) decrease in inventory	(52,671)	(169,998)
(Increase) decrease in prepaid expenses	(4,943)	181,344
Increase (decrease) in accounts payable, accrued expenses, and taxes payable	161,986	42,027
Total Adjustments	<u>(31,474)</u>	<u>(452,228)</u>
Net Cash Provided by Operating Activities	<u>528,251</u>	<u>(53,279)</u>
Cash Flows from Investing Activities:		
Purchase of property and equipment	<u>(49,495)</u>	<u>(4,888)</u>
Net Cash Used by Investing Activities	<u>(49,495)</u>	<u>(4,888)</u>
Cash Flows from Financing Activities:		
Proceeds from Line of Credit	950,000	-
Proceeds from exercise of stock options	28,000	-
Repurchase of common shares	(946,097)	-
Dividends paid	<u>(350,178)</u>	<u>(575,438)</u>
Net Cash Used by Financing Activities	<u>(318,275)</u>	<u>(575,438)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	160,481	(633,605)
Cash and Cash Equivalents at Beginning of Period	1,274,725	1,364,644
Cash and Cash Equivalents at End of Period	<u>\$ 1,435,206</u>	<u>\$ 731,040</u>
Supplemental Disclosures of Cash Flow Information:		
Cash paid during the period for:		
Interest	\$ 2,056	\$ -
Income Taxes	\$ -	\$ -

The accompanying notes are an integral part of these financial statements

ARMANINO FOODS OF DISTINCTION, INC.
QUARTERLY REPORT
MARCH 31, 2011
UNAUDITED

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 it’s wholly-owned dormant subsidiary AFDI, Inc. which was incorporated in May 1995.

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

Cash and Cash Equivalents - The Company considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents. The Company had \$1,185,205 and \$1,110,355 in excess of federally insured amounts in its bank accounts at March 31, 2011 and December 31, 2010.

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 (Formerly Statement of Financial Accounting Standard (SFAS) 115, “Accounting for Certain Investments in 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, 2011 and December 31, 2010, the Company had three certificates of deposit with a purchase value and fair value totaling \$997,792 and \$997,792, respectively.

Accounts Receivable - Accounts receivable consist of trade receivables arising in the normal course of business. At March 31, 2011, and December 31, 2010, the Company has established an allowance for doubtful accounts of \$27,764 and \$27,764, 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, 2011
UNAUDITED

ITEM III. INTERIM FINANCIAL STATEMENTS – (Continued)

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, (formerly SFAS No. 142), “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 (Formerly SFAS 48, “Revenue Recognition When Right of Returns Exists” and EITF No. 00-14, 00-25, 01-09 “Accounting for Consideration Given by a Vendor to a Customer”). 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, 2011
 UNAUDITED

ITEM III. INTERIM FINANCIAL STATEMENTS – (Continued)

Net sales comprised of the following for the three months ending March 31, 2011 and 2010:

	For the Three Months Ended	
	March 31, 2011	March 31, 2010
Gross Sales	\$ 6,799,884	\$ 5,787,497
Less: Discounts	(97,646)	(75,739)
Slotting	(4,709)	(7,528)
Promotions	(833,060)	(707,364)
Net Sales	\$ 5,864,470	\$ 4,996,866

Advertising Cost - Cost incurred in connection with advertising of the Company's products are expensed as incurred. Such costs amounted to \$800 and \$0 for the three months ending March 31, 2011 and 2010, 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 at March 31, 2011 and 2010 are \$1,666 and \$3,802, 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

ARMANINO FOODS OF DISTINCTION, INC.
QUARTERLY REPORT
MARCH 31, 2011
UNAUDITED

ITEM III. INTERIM FINANCIAL STATEMENTS – (Continued)

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 January 2010, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update No. 2010-06, Fair Value Measurements and Disclosures (Topic 820): Improving Disclosures about Fair Value Measurements (ASU 2010-06). ASU 2010-06 amends Subtopic 820-10 to require disclosure of the transfers in and out of Levels 1 and 2. The Company adopted ASU 2010-06 and its application had no impact on the Company’s consolidated financial statements.

Other 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, 2011 and 2010, the Company paid accounting fees of \$450 and \$4,970, 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, 2011 and December 31, 2010:

	March 31, 2011	December 31, 2010
Raw Materials and Supplies	\$ 789,120	\$ 712,732
Finished Goods	1,015,130	1,038,847
Reserve for Obsolescence	(25,000)	(25,000)
Net Inventory	<u>\$ 1,779,250</u>	<u>\$ 1,726,579</u>

The Company’s inventory is held as collateral on its line of credits.

ARMANINO FOODS OF DISTINCTION, INC.
 QUARTERLY REPORT
 MARCH 31, 2011
 UNAUDITED

ITEM III. INTERIM FINANCIAL STATEMENTS – (Continued)

NOTE 4 - PROPERTY AND EQUIPMENT

Property and equipment consists of the following at March 31, 2011 and December 31, 2010:

	Useful Life (Years)	March 31, 2011	December 31, 2010
Office equipment & furniture	2-10	\$ 462,634	\$ 437,083
Machinery & equipment	5-20	4,318,883	4,294,842
Vehicles - Trucks	7	45,989	45,989
Leasehold Improvements	3-25	1,944,194	1,944,194
		<u>6,771,701</u>	<u>6,722,108</u>
Less Accumulated Depreciation		<u>(5,907,577)</u>	<u>(5,851,121)</u>
Net property & equipment		<u>864,124</u>	<u>870,987</u>

Depreciation expense amounted to \$56,456 and \$55,043 for the three months ending March 31, 2011 and 2010, respectively.

The Company's property and equipment is held as collateral on its line of credits.

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, 2011 and December 31, 2010, Goodwill amounted \$375,438.

During the three months ended March 31, 2011, 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 office and production facility under an operating lease expiring in August 2008, with options to extend through August 2013 at fair market rates. During December 2008, the Company renewed an operating lease for additional office and storage space expiring in December 2013. The Company also leases equipment under an operating lease expiring upon 90 days written notice.

ARMANINO FOODS OF DISTINCTION, INC.
QUARTERLY REPORT
MARCH 31, 2011
UNAUDITED

ITEM III. INTERIM FINANCIAL STATEMENTS – (Continued)

The future minimum lease payments for non-cancelable operating leases having remaining terms in excess of one year as of March 31, 2011 are as follows:

<u>Year ending December 31</u>	<u>Lease Payments</u>
2011	220,986
2012	298,573
2013	225,566
Thereafter	-
Total Minimum Lease Payments	<u>\$ 745,125</u>

Lease expense charged to operations was \$75,090 and \$71,689 for the three months ending March 31, 2011 and 2010.

NOTE 7 – LINE OF CREDIT

The Company maintains a \$950,000 revolving line of credit with a financial institution. The line accrues interest at prime (3.25% on March 31, 2011) plus 1% with a floor of 5%. The line matures August 10, 2011. The line is secured by all of the Company's personal property. At March 31, 2011, \$950,000 was available on the revolving line.

\$2,000,000 Line of Credit – 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*”). While the Board has currently authorized only \$1,000,000 in common stock repurchases, this \$2,000,000 line of credit gives the Company the flexibility to repurchase additional common stock pending Board approval. Under the terms of the agreement the Company has a one year draw period from October 1, 2010 to October 1, 2011. 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 September 30, 2010) 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. At March 31, 2011 and December 31, 2010, \$1,000,000 and \$1,950,000 was available on the revolving line, respectively (see Note 13 regarding “*Subsequent Events*”).

NOTE 8 - AGREEMENTS AND COMMITMENTS

ARMANINO FOODS OF DISTINCTION, INC.
 QUARTERLY REPORT
 MARCH 31, 2011
 UNAUDITED

ITEM III. INTERIM FINANCIAL STATEMENTS -- (Continued)

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, 2011 and 2010 the Company matching contributions to the plan expensed were \$15,062 and \$13,966, respectively.

NOTE 9 - 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 reporting differences between book and tax accounting and any available operating loss or tax credit carry forwards. At March 31, 2011, and December 31, 2010, the total of all deferred tax assets was \$270,148, and \$270,148, 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, 2011, and December 31, 2010:

	March 31, 2011	December 31, 2010
Inventory 263A adjustment	\$ 28,742	\$ 28,742
Reserve for accrued vacation	39,788	39,788
	68,260	68,260
Excess of tax over book depreciation	138,888	180,682
	\$ 270,148	\$ 270,148

ARMANINO FOODS OF DISTINCTION, INC.
QUARTERLY REPORT
MARCH 31, 2011
UNAUDITED

ITEM III. INTERIM FINANCIAL STATEMENTS – (Continued)

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

The Company files U.S. federal, and California state income tax returns, and it is generally no longer subject to tax examinations for years prior to 2008 for U.S. federal and U.S. states tax returns.

NOTE 10 - 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, 2011, and 2010:

	For the Three Months Ended	
	March 31,	March 31,
	2010	2010
Net Income	<u>\$ 559,725</u>	<u>\$ 398,949</u>
Weighted average number of common shares outstanding used in basic earnings per share	34,848,620	34,877,780
Effect of dilutive securities: Stock Options	<u>65,318</u>	<u>209,881</u>
Weighted average number of common shares and potential dilutive shares outstanding used in diluted earnings per share	<u>34,913,938</u>	<u>35,087,661</u>

For the three months ended March 31, 2011 and 2010, the Company had no options that were not included in the computation of diluted earnings per share.

NOTE 11 - 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, 2011 and December 31, 2010.

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 1993 stock option plan.

ARMANINO FOODS OF DISTINCTION, INC.
QUARTERLY REPORT
MARCH 31, 2011
UNAUDITED

ITEM III. INTERIM FINANCIAL STATEMENTS – (Continued)

Common Stock Split - On March 7, 2008, the Company's Board of Directors declared a 100% stock dividend to stockholders of record at March 20, 2008. The stock dividend, essentially a 2-for-1 forward split, was effective on March 30, 2008. The accompanying consolidated financial statements have been restated to reflect the effect of the dividend.

Dividends – Of the \$350,178 and \$575,438 in dividends paid to common shareholders, during the three months ended March 31, 2011 and 2010, \$0 and \$0 was considered a liquidating dividend.

Treasury Stock - The Board of Directors has authorized the Company to repurchase up to \$1,000,000 of the Company's Common Stock at market prices. The amount and timing of the shares to be repurchased are at the discretion of management. During the three months ended March 31, 2011, 1,295,645 shares, at \$0.70 to \$0.88 per share at an aggregate cost of \$946,097, were repurchased under this program. During the year ended December 31, 2010, 44,600 shares, at \$0.73 to \$0.77 per share at an aggregate cost of \$33,530, were repurchased under this program. At March 31, 2011 the Company retired all of the 1,340,245 shares that it had acquired to that date. At March 31, 2011, the Company is authorized to repurchase an additional \$20,373 of the Company's common stock.

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 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, 2011 and December 31, 2010, total options available to be granted under the Plan total 550,000 and 550,000, respectively.

NOTE 12 - 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 69%, and 6% of outstanding receivables at March 31, 2011, 58% and 16% at December 31, 2010.

ARMANINO FOODS OF DISTINCTION, INC.
QUARTERLY REPORT
MARCH 31, 2011
UNAUDITED

ITEM III. INTERIM FINANCIAL STATEMENTS – (Continued)

During the three months ending March 31, 2011 and 2010, 51% and 50% of the Company's total gross sales, respectively, were handled by a non-exclusive national distributor.

During the three months ending March 31, 2011 and 2010 Asian sales amounted to 6% and 10% of the Company's total gross sales, respectively.

The Company's food brokers are paid commissions ranging from 2% to 5% of sales depending on products sold and selling price. The following table lists the total gross sales from continuing operations through each of the Company's top three brokers for the three months ending March 31:

	March 31, 2011	March 31, 2010
Broker A	\$1,158,567	\$867,236
Broker B	\$693,642	\$645,545
Broker C	\$503,092	\$435,596

NOTE 13 – SUBSEQUENT EVENTS

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 has drawn through 3/31/11 from its \$2,000,000 line of credit (See Note 7 regarding "*Line of Credit*"). Under the terms, the \$1,000,000 under this SWAP agreement is payable over a 5 year amortization period starting on June 2, 2011.

On May 6, 2011, the Company's Board of Directors authorized up to an additional \$1,000,000 for the repurchase of the Company's stock, making the Company's aggregate authorization \$2,000,000. The repurchase program will continue to be carried out in the open market through block trades or otherwise, or in privately negotiated transactions off the market, subject to market conditions. Any repurchases will be made at the discretion of management from time to time in compliance with Rule 10b-18 under the Securities Exchange Act of 1934. The repurchase program does not require the Company to acquire a specific number of shares and may be suspended from time-to-time or discontinued at any time. It is anticipated that the cost of any shares that are repurchased will be funded from the Company's credit facility. Through 3/31/11, the Company has repurchased 1,340,245 shares of its common stock for an aggregate purchase price of \$979,560. These shares were retired on 3/31/11. The Company intends to retire all additional stock that it will repurchase under this program.

