



QUARTERLY DISCLOSURE REPORT
SEPTEMBER 30, 2017
UNAUDITED

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

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

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

Company Headquarters:

Address 1: 30588 San Antonio Street

Address 2: Hayward, CA 94544

Phone: (510) 441-9300

Email: amnf@armaninofoods.com

Website(s): www.armaninofoods.com

IR Contact:

Address 1: 30588 San Antonio Street

Address 2: Hayward, CA 94544

Phone: (510) 441-9300

Email: amnf@armaninofoods.com

Website(s): www.armaninofoods.com

3. SECURITY INFORMATION:

a. Trading Symbol: AMNF

b. Title and class of securities outstanding: Common Stock

CUSIP: 042166801

Par or Stated Value: no par

	September 30, <u>2017</u>	September 30, <u>2016</u>	September 30, <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	31,265,997	30,203,203
# of beneficial shareholders ⁽¹⁾	1,300	1,300	1,300
# of shareholders of record	110	114	121

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

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c. Additional class of securities: Preferred Stock

CUSIP: 042166801

Par or Stated Value: no par

	<u>September 30,</u> <u>2017</u>	<u>September 30,</u> <u>2016</u>	<u>September 30,</u> <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 09/30/17; 799,648 shares of common stock are restricted as of 09/30/16; and, 1,862,442 shares of common stock are restricted as of 09/30/15

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.

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5. FINANCIAL STATEMENTS

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

6. ISSUER'S BUSINESS, PRODUCTS, AND SERVICES

a. Issuer's business operations:

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

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

Colorado, 1986

c. Issuer's primary and secondary SIC Codes:

2030

d. Issuer's fiscal year end date:

December 31

e. Principal products or services, and their markets:

The Company's line of frozen products presently includes pesto 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 September 30, 2017.

8. OFFICERS, DIRECTORS, AND CONTROL PERSONS

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

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Name	Business Address	Positions and Offices Held & Term as a Director	Shares Owned
Edmond J. Pera	30588 San Antonio Street Hayward, CA 94544	President and Chief Executive Officer since February 2009. Also, Secretary, Treasurer until February 2009, and Director since August 2000. Served as Chief Operating Officer (Principal Financial Officer) from May 2003 to February 2009.	450,000
Douglas R. Nichols	30588 San Antonio Street Hayward, CA 94544	Chairman of the Board since February 2009. Previously served as Director since June 2001.	907,545
John Micek III	30588 San Antonio Street Hayward, CA 94544	Director since February 1988.	142,960
David B. Scatena	30588 San Antonio Street Hayward, CA 94544	Director since February 1988 and Vice Chairman of the Board since February 1999.	8,280
Joseph F. Barletta	30588 San Antonio Street Hayward, CA 94544	Director since December 1999.	-
Patricia A. Fehling	30588 San Antonio Street Hayward, CA 94544	Director since December 2004	100,000
Deborah Armanino LeBlanc	30588 San Antonio Street Hayward, CA 94544	Director and Secretary since February 2009.	962,794

- 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

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- c. Beneficial Shareholders -- Name, address and shareholdings or the percentage of shares owned by all persons beneficially owning more than ten percent (10%) of any class of the issuer's equity securities: None
9. THIRD PARTY PROVIDERS
- a. Legal Counsel
 - Name: Mark Cassanego
 - Firm: Carr McClellan 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

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10. ISSUER CERTIFICATION

I, Edmond J. Pera certify that:

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

November 14, 2017

/s/Edmond J Pera

CEO

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10. ISSUER CERTIFICATION (Continued)

I, Edgar Estonina certify that:

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

November 14, 2017
/s/Edgar Estonina
COO/CFO

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INTERIM FINANCIAL STATEMENTS

CONSOLIDATED BALANCE SHEETS:

	As of September 30, 2017	As of December 31, 2016
CURRENT ASSETS:	(Unaudited)	
Cash	\$ 3,318,200	\$ 3,702,067
Certificates of Deposit	1,035,757	871,787
Accounts Receivable, net	5,681,665	4,549,206
Inventories	3,603,475	3,437,923
Prepaid Expenses	197,030	367,319
Current Deferred Tax Asset	-	109,359
Total Current Assets	13,836,127	13,037,661
 PROPERTY AND EQUIPMENT, net		
accumulated depreciation	4,595,416	1,644,986
 OTHER ASSETS:		
Deposits	20,000	20,000
Goodwill	375,438	375,438
Trademarks	84,029	72,570
Total Other Assets	479,467	468,008
Total Assets	\$ 18,911,010	\$ 15,150,655

The accompanying notes are an integral part of these financial statements

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CONSOLIDATED BALANCE SHEETS:

	As of September 30, 2017	As of December 31, 2016
CURRENT LIABILITIES:	(Unaudited)	
Notes Payable - Current Portion	\$ 183,956	\$ 89,949
Accounts Payable - Trade	1,906,166	1,304,649
Accrued Payroll and Payroll Taxes	588,067	701,331
Other Accrued Liabilities	-	180
Dividends Payable	641,313	641,313
Accrued Income Taxes	305,454	-
Total Current Liabilities	3,624,956	2,737,422
 LONG TERM LIABILITIES:		
Notes Payable - Noncurrent Portion	1,195,711	-
Deferred Tax Liability, net	23,321	132,613
Total Liabilities	4,843,988	2,870,035
 STOCKHOLDERS' EQUITY:		
Preferred Stock; no par value, 10,000,000 shares authorized, no shares issued and outstanding	-	-
Common Stock; no par value, 40,000,000 shares authorized, 32,065,645 and 32,065,645 and shares issued and outstanding at September 30, 2017 and December 31, 2016, respectively	2,774,990	2,774,990
Additional Paid-in Capital	48,202	48,202
Accumulated Other Comprehensive Income	-	(113)
Retained Earnings	11,243,830	9,457,541
Total Stockholders' Equity	14,067,022	12,280,620
Total Liabilities and Stockholders' Equity	\$ 18,911,010	\$ 15,150,655

The accompanying notes are an integral part of these financial statements

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CONSOLIDATED STATEMENT OF EARNINGS AND COMPREHENSIVE INCOME:

	FOR THE THREE MONTHS ENDED SEPTEMBER 30,		FOR THE NINE MONTHS ENDED SEPTEMBER 30,	
	2017	2016	2017	2016
NET SALES	\$ 10,004,933	\$ 9,388,778	\$ 29,357,649	\$ 27,084,339
COST OF GOODS SOLD	6,478,706	6,106,614	19,057,021	17,343,391
GROSS PROFIT	<u>3,526,227</u>	<u>3,282,164</u>	<u>10,300,628</u>	<u>9,740,948</u>
OPERATING EXPENSES:				
General, administrative and selling expense	466,500	485,915	1,533,486	1,429,042
Salaries & wages	687,927	711,810	2,151,831	2,254,508
Commissions	325,516	300,548	934,843	873,535
Total Operating Expense	<u>1,479,943</u>	<u>1,498,273</u>	<u>4,620,160</u>	<u>4,557,085</u>
INCOME FROM OPERATIONS	<u>2,046,284</u>	<u>1,783,891</u>	<u>5,680,468</u>	<u>5,183,863</u>
OTHER INCOME (EXPENSE)				
Interest and other income	23,979	40,111	127,227	101,868
Interest (expense)	(10,589)	(1,868)	(11,480)	(6,608)
Total Other Income (Expense)	<u>13,390</u>	<u>38,243</u>	<u>115,747</u>	<u>95,260</u>
INCOME BEFORE INCOME TAXES	2,059,674	1,822,134	5,796,215	5,279,123
CURRENT TAX EXPENSE	741,484	674,190	2,085,987	1,953,276
DEFERRED TAX (BENEFIT)	-	-	-	-
NET INCOME	<u>\$ 1,318,190</u>	<u>\$ 1,147,944</u>	<u>\$ 3,710,228</u>	<u>\$ 3,325,847</u>
Derivative instrument accounted for as a hedge, net of tax of \$0, \$123, \$67 and \$569, respectively	-	208	113	968
COMPREHENSIVE INCOME	<u>\$ 1,318,190</u>	<u>\$ 1,148,152</u>	<u>\$ 3,710,341</u>	<u>\$ 3,326,815</u>
EARNINGS PER COMMON AND EQUIVALENT SHARES:				
BASIC EARNINGS PER SHARE	<u>\$ 0.041</u>	<u>\$ 0.036</u>	<u>\$ 0.116</u>	<u>\$ 0.104</u>
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING	<u>32,065,645</u>	<u>32,065,645</u>	<u>32,065,645</u>	<u>32,065,645</u>
DILUTED EARNINGS PER SHARE	<u>\$ 0.041</u>	<u>\$ 0.036</u>	<u>\$ 0.116</u>	<u>\$ 0.104</u>
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING ASSUMING DILUTION	<u>32,065,645</u>	<u>32,065,645</u>	<u>32,065,645</u>	<u>32,065,645</u>

The accompanying notes are an integral part of these financial statements

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CONSOLIDATED STATEMENT OF STOCKHOLDER'S EQUITY:

	<u>Common Stock</u>		<u>Additional Paid-in Capital</u>	<u>Accumulated Other Comprehensive Income</u>	<u>Retained Earnings</u>
	<u>Shares</u>	<u>Amount</u>			
BALANCE, December 31, 2015	32,065,645	\$ 2,774,990	\$ 48,202	\$ (1,233)	\$ 7,764,587
Dividends on common shares	-	-	-	-	(2,533,187)
Derivative instrument accounted for as a hedge net of tax of \$569	-	-	-	1,120	-
Net income for the year ended December 31, 2016	-	-	-	-	4,226,141
BALANCE, December 31, 2016	32,065,645	\$ 2,774,990	\$ 48,202	\$ (113)	\$ 9,457,541
Dividends on common shares	-	-	-	-	(1,923,939)
Derivative instrument accounted for as a hedge net of tax of \$67	-	-	-	113	-
Net income for the nine months ended September 30, 2017	-	-	-	-	3,710,228
BALANCE, September 30, 2017	32,065,645	\$ 2,774,990	\$ 48,202	\$ -	\$ 11,243,830

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CONSOLIDATED STATEMENTS OF CASH FLOW:

	FOR THE NINE	
	MONTHS ENDED SEPTEMBER 30,	
	2017	2016
Cash Flows from Operating Activities:		
Net Income	\$ 3,710,228	\$ 3,325,874
Adjustments to reconcile net income to net cash provided by operations:		
Depreciation and amortization	246,161	283,086
Change in deferred tax asset / liability	-	-
Changes in assets and liabilities:		
(Increase) decrease in accounts receivable	(1,132,459)	(967,446)
(Increase) decrease in inventory	(165,552)	(1,055,095)
(Increase) decrease in prepaid expenses	170,289	216,268
Increase (decrease) in accounts payable, accrued expenses, and taxes payable	793,705	(113,675)
Total Adjustments	<u>(87,856)</u>	<u>(1,636,862)</u>
Net Cash Provided by Operating Activities	<u>3,622,372</u>	<u>1,689,012</u>
Cash Flows from Investing Activities:		
Purchase of property and equipment	(3,196,590)	(159,828)
Purchase of Trademarks	(11,460)	(8,030)
Proceeds (Purchase) of certificates of deposit	(163,971)	(106,394)
Net Cash Used by Investing Activities	<u>(3,372,021)</u>	<u>(274,252)</u>
Cash Flows from Financing Activities:		
Proceeds from line of credit	1,379,667	-
Payments on notes payable	(89,949)	(249,450)
Dividends paid	(1,923,936)	(1,859,809)
Net Cash Used by Financing Activities	<u>(634,218)</u>	<u>(2,109,259)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(383,867)	(694,499)
Cash and Cash Equivalents at Beginning of Period	3,702,067	3,437,695
Cash and Cash Equivalents at End of Period	<u>\$ 3,318,200</u>	<u>\$ 2,743,196</u>
Supplemental Disclosures of Cash Flow Information:		
Cash paid during the period for:		
Interest	\$ 11,480	\$ 6,608
Income Taxes	\$ 1,602,000	\$ 1,429,000

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Business and Basis of Presentation - The consolidated financial statements include the accounts of Armanino Foods of Distinction, Inc. (the “Company”), which engages in the production and marketing of upscale and innovative food products, including primarily frozen pesto sauces, frozen pasta products, cooked and frozen meat and poultry products, 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 \$3,663,696 and \$3,282,919 in excess of federally insured amounts in its bank accounts at September 30, 2017 and December 31, 2016.

Certificates of Deposit and Treasury Bills - The Company accounts for investments in debt and equity securities in accordance with Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) ASC Topic 320 Investments – Debt and Equity Securities. Under Topic 320 the Company’s certificates of deposit and treasury bills (debt securities) have been classified as held-to-maturity and are recorded at amortized cost. Held-to-maturity securities represent those securities that the Company has both the positive intent and ability to hold until maturity. At September 30, 2017, the Company had twelve certificates of deposit with a purchase value of \$1,031,070 and a fair value totaling \$1,035,757, amortized value totaling \$1,035,757 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 September 30, 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.

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

Net sales comprised of the following for the three and nine months ending September 30, 2017 and 2016:

	FOR THE		FOR THE	
	THREE MONTHS ENDED		NINE MONTHS ENDED	
	SEPTEMBER 30,		SEPTEMBER 30,	
	2017	2016	2017	2016
Gross Sales	\$ 11,993,145	\$ 11,225,266	\$ 35,171,126	\$ 32,117,978
Less: Discounts	(204,217)	(158,946)	(548,710)	(479,026)
Slotting	-	-	-	(2,804)
Promotions	(1,783,995)	(1,677,542)	(5,264,767)	(4,551,809)
Net Sales	<u>\$ 10,004,933</u>	<u>\$ 9,388,778</u>	<u>\$ 29,357,649</u>	<u>\$ 27,084,339</u>

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Advertising Cost - Cost incurred in connection with advertising of the Company's products are expensed as incurred. Such costs amounted to \$2,078, \$4,523, \$1,414, and \$3,454 for the three and nine months ending September 30, 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 and nine months at September 30, 2017 and 2016 are \$0, \$1,871, \$416, and \$4,887, respectively, of research and development costs.

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

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

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

Level 1. Observable inputs such as quoted prices in active markets for identical assets or liabilities;

Level 2. Inputs, other than the quoted prices in active markets, that are observable either directly or indirectly; and

Level 3. Unobservable inputs in which there is little or no market data, which require the reporting entity to develop its own assumptions.

Unless otherwise disclosed, the fair value of the Company's financial instruments including

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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.

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

NOTE 2 - RELATED PARTY TRANSACTIONS

During the three and nine months ending September 30, 2017 and 2016, the Company paid accounting fees of \$1,075, \$8,555, \$985, and \$7,675, 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 September 30, 2017 and December 31, 2016:

	September 30, 2017	December 31, 2016
Raw Materials and Supplies	\$ 913,502	\$ 995,927
Finished Goods	2,714,974	2,466,996
Reserve for Obsolescence	<u>(25,000)</u>	<u>(25,000)</u>
	<u>\$ 3,603,475</u>	<u>\$ 3,437,923</u>

NOTE 4 - PROPERTY AND EQUIPMENT

Property and equipment consists of the following at September 30, 2017 and December 31, 2016:

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	Useful Life	September 30, 2017	December 31, 2016
Office equipment & furniture	2 – 10	\$ 635,940	\$ 598,734
Machinery and equipment	5 – 20	3,650,679	3,606,683
Vehicles	7	45,989	45,989
Leasehold improvements	3 – 25	2,296,674	2,286,731
Construction in Progress		3,267,695	162,249
		9,896,977	6,700,386
Less Accumulated Depreciation		(5,301,561)	(5,055,400)
Net Property and Equipment		\$ 4,595,416	\$ 1,644,986

Depreciation expense amounted to \$81,444, \$246,161, \$92,656, and \$283,086 for the three and nine months ending September 30, 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 September 30, 2017 and December 31, 2016, Goodwill amounted \$375,438.

Trademarks - Trademarks represent the current costs seeking Trademarks. At September 30, 2017 and December 31, 2016, Trademarks amounted \$84,029 and \$72,570, respectively.

During the nine months ended September 30, 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

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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 September 30, 2017 are as follows:

<u>Year Ended December 31,</u>	<u>Lease Payment</u>
2017	80,766
2018	331,668
2019	340,260
2020	348,816
2021	357,612
Thereafter	-
Future Minimum Lease Payments	<u>\$ 1,459,122</u>

Lease expense charged to operations were \$80,766 and \$72,410 for the three months and \$242,298 and \$217,230 for the nine months ending September 30, 2017 and 2016, respectively.

NOTE 7 – LINE OF CREDIT

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 January 1, 2018. The line accrues interest at a fixed rate of 3.35% and is secured by all of the Company's personal property. At September 30, 2017, there was \$1,131,961 outstanding on the line with \$1,968,039 available on the line. Management estimates that the current portion of the outstanding balance is \$150,928 based on a 5 year amortization of the balance outstanding at September 30, 2017. At the end of the availability period the line will convert to a 5 year note payable maturing September 12, 2022. The current portion will be adjusted as additional balances are drawn against the line.

Notes Payable – 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 January 1, 2018. At September 30, 2017, there was \$247,706 outstanding on the note with \$302,294 available on the note. Management estimates that the current portion of the outstanding balance is \$33,027 based on a 5 year amortization of the balance outstanding at September 30, 2017. At the end of the availability period the line will convert to a 5 year note payable maturing September 12, 2022. The current portion will be adjusted as additional balances are drawn against the loan.

During May 2017, the Company paid off a note payable with an effective fixed interest rate of

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3.9% through an interest swap agreement which had a balance outstanding of \$89,949 at December 31, 2016.

Future Maturities of the notes payable at September 30, 2017 are as follows:

<u>Year ended September 30, 2017</u>	
2017	\$ 183,956
2018	275,933
2019	275,933
2020	275,933
2021	275,933
Thereafter	91,978
	<u>\$ 1,379,667</u>

NOTE 8 - DERIVATIVE FINANCIAL INSTRUMENTS

In the normal course of business, the Company is exposed to certain risks related to fluctuations in interest rates. The Company uses a derivative contract interest rate 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 was exposed to changes in interest rates on its \$2,000,000 Note payable / Line of Credit. In order to manage this risk, on April 29, 2011, and May 2, 2012 the Company entered into a five year interest rate swap agreement to manage interest costs and the risk associated with changing interest rates. The interest rate swap expired when the Note payable / Line of Credit was fully paid off on April 29, 2016 and May 2, 2017. 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 offset changes in the interest rate of the \$2,000,000 Note payable / Line of credit, which enabled the Company to effectively lock in a fixed 4.5% interest rate on the \$1,000,000 which it had drawn through June 30, 2011, and to effectively lock in a fixed 3.9% interest rate on the remaining \$1,000,000 of the \$2,000,000 Note payable / Line of Credit which it had drawn down through June 30, 2012. The Company formally documented the effectiveness of this qualifying hedge instrument (both at the inception of the swap and on an ongoing basis) in offsetting changes in cash flows of the hedged transaction. The fair value of the interest rate swap is calculated as described in Note 9, "Fair Value of Financial

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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 receive payment at a variable rate beginning on April 29, 2011 and May 2, 2012. The swap effectively fixed the interest rate to 4.5% on \$1,000,000 and 3.9% on the remaining \$1,000,000 under the Note Payable, with the outstanding balance subject to the swap declining over time. The 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 were 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.

The effect of derivative instruments on the Consolidated Statements of Income for the three and nine months ended September 30, 2017 and 2016 was as follows:

	Amount of Gain/(Loss) Recognized in Accumulated OCL on Derivative (Effective Portion)	Location of Gain/(Loss) Reclassified from Accumulated OCL into Income (Effective Portion)	Amount of Gain/(Loss) Reclassified from Accumulated OCL into Income (Effective Portion)	Location of Gain/(Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)	Amount of Gain/(Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)
<u>For the nine months ended September 30, 2017:</u>					
Interest rate swap	\$ 290	Interest expense	\$ 290	Interest expense	\$ -
<u>For the nine months ended September 30, 2016:</u>					
Interest rate swap	\$ 968	Interest expense	\$ 968	Interest expense	\$ -

NOTE 9 – FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

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- 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 September 30, 2017	Level 1	Level 2	Level 3
Interest Rate Swap	-	\$ -	-
Total	-	\$ -	-
As of December 31, 2016	Level 1	Level 2	Level 3
Interest Rate Swap	-	\$ (751)	-
Total	-	\$ (751)	-

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 from one to 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,

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1993 and has a plan year of January 1 through December 31. During the nine months ending September 30, 2017 and 2016 the Company matching contributions to the plan expensed were \$61,802 and \$61,270, 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 September 30, 2017, and December 31, 2016, the total of all deferred tax assets was \$109,293 and \$109,359, respectively, and the total of the deferred tax liabilities was \$132,614 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 September 30, 2017 and December 31, 2016:

	September 30, 2017	December 31, 2016
Inventory 263A adjustment	\$ 39,303	\$ 39,303
Reserve for accrued vacation	69,990	69,990
Other	-	66
	<u>109,293</u>	<u>109,359</u>
Excess of tax over book depreciation	<u>(132,614)</u>	<u>(132,613)</u>
Deferred Tax Liability, Net	<u>\$ (23,321)</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.

The Company files U.S. federal, and California state income tax returns, and is generally no longer subject to tax examinations for years prior to 2012 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:

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	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2017	2016	2017	2016
Net Income	\$ 1,318,190	\$ 1,147,944	\$ 3,710,228	\$ 3,325,847
Weighted average number of common shares outstanding used in basic earnings per share	32,065,645	32,065,645	32,065,645	32,065,645
Effect of dilutive securities: Stock Options	-	-	-	-
Weighted average number of common shares and potential dilutive shares outstanding used in diluted earnings per share	32,065,645	32,065,645	32,435,913	34,335,009

For the three and nine months ended September 30, 2017 and 2016, the Company had no options that were not included in the computation of diluted earnings per share.

NOTE 13 - STOCKHOLDERS' EQUITY

Preferred Stock - The Company is authorized to issue 10,000,000 shares of no par value preferred stock with such rights and preferences and in such series as determined by the Board of Directors at the time of issuance. No shares are issued or outstanding as of September 30, 2017 and December 31, 2016.

Dividends - During the three and nine months ended September 30, 2017 and 2016, the Company paid \$641,313, \$1,923,936, \$641,313, and \$1,859,809, 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 September 30, 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 September 30, 2017, the Company remained authorized to repurchase an additional \$105,706 of the Company's common stock.

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 distribution customers who accounted for 68% and 8% of outstanding receivables at September 30, 2017, 66% and 15% at December 31, 2016. These distribution customers re-sell the Company's products to a wider range of end user accounts.

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During the three and nine months ending September 30, 2017 and 2016, 56% and 58%, and 56% and 56% of the Company's total gross sales, respectively, were handled by a non-exclusive national distributor.

During the three and nine months ending September 30, 2017 and 2016, sales to accounts in Asia amounted to 8% and 8%, and 11% 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 and nine months ending September 30:

	For the Three Months Ended		For the Nine Months Ended	
	September 30,		September 30,	
	2017	2016	2017	2016
Broker A	\$ 1,495,563	\$ 1,336,017	\$ 4,342,034	\$ 4,103,173
Broker B	1,175,951	1,083,609	3,544,843	3,196,897
Broker C	913,543	832,158	2,564,142	2,375,408

NOTE 15 – SUBSEQUENT EVENT

The Company's management has reviewed all material events through November 14, 2017.

On September 7, 2017, the Company's Board of Directors declared a regular cash dividend of \$0.020 per share that was paid on October 27, 2017 to shareholders of record on October 2, 2017.

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SUPPLEMENTAL INFORMATION

1. MANAGEMENT DISCUSSION AND ANALYSIS

A. Results of Operations

Liquidity and Capital Resources - At September 30, 2017, the Company had working capital of \$10,211,171 compared to \$10,300,239 at December 31, 2016. This decrease is mainly due to the increase during the third quarter of 2017 in accounts payable and the current portion of notes payable, offset by increase in accounts receivable. The Company's strong cash position has enabled it to pay off its debt used to repurchase common shares, and declare another quarterly dividend - the Company's 70th 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 January 31, 2018. The line accrues interest at a fixed rate of 3.35% and is secured by all of the Company's personal property. At September 30, 2017, there was \$1,131,961 outstanding on the line with \$1,968,039 available for draw down on the line. On January 3, 2017, the Company also secured a \$550,000 equipment loan with a financial institution. The availability period for this line ends on January 31, 2018. The loan will be secured by the new equipment and accrue interest at a fixed rate of 4.25%. At September 30, 2017, there was \$247,706 outstanding on the equipment loan with \$302,294 available on the equipment loan.

The plant expansion project has been completed on time and within the Company's \$3.5 million budget. As of the end of the third quarter, the Company spent a total of \$3,267,694 on this project. Additional invoices with respect to this project are expected to be received and paid in the 4th quarter. The Company has successfully transitioned into its newly-designed facility. In the 4th quarter of 2017 and the 1st quarter of 2018 the Company will continue to refine its use of the new equipment.

Results of Operations - Net sales for the quarter ending September 30, 2017 increased by 7% to \$10,004,933 from \$9,388,778 in the same quarter last year. In addition to breaking sales records for the third quarter, the 3rd quarter also registered the Company's highest quarterly profit ever. Sales to existing US domestic customers were strong across all product lines. The Company's exceptional performance in the domestic market was partially offset by continued weak sales in its Asian markets both for the 3rd quarter 2017 as well as on a year to date basis.

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Cost of goods sold as a percentage of net sales for the quarter ending September 30, 2017 was 65% compared to 65% during the same quarter last year.

Operating expenses as a percentage of net sales for the quarter ending September 30, 2017 were 15% compared to 16% during the same quarter last year. This is mainly due to the effects of higher net sales compared to the same comparative period.

Net income of \$1,318,190 for the three months ended September 30, 2017 increased \$170,246, or 15%, versus net income of \$1,147,944 for the three months ended September 30, 2016.

The Company remains cautiously optimistic about its financial performance for the remainder of this year. The Company's current sales pipeline and cash position are strong. The Company continues to remain guarded in its outlook for its Asian markets, principally Japan, due to the recent performance in those markets and the continued weak currency and stagnant economic conditions that are forecasted to persist in those markets.

Cash Flow - For the nine months ending September 30, 2017, cash flow from operating activities increased by \$1,933,360, to \$3,622,372 from \$1,689,012 in the same period last year. This increase is largely a result of the company's profitable operations, a smaller increase in inventory compared to the prior year, and the effects of timing in the increase in its accounts payables and accrued expenses, offset by an increase in the accounts receivable balance.

Net cash used in investing activities for the nine months ending September 30, 2017 was \$<3,372,021> resulting from the spending associated with its plant expansion project as well as the purchase of certificates of deposits. During the nine months ending September 30, 2016 the Company used <\$274,252> largely due to the purchase of equipment and certificates of deposit in that period.

Net cash used in financing activities for the nine months ending September 30, 2017 was \$<634,218> compared to net cash used in financing activities of \$<2,109,259> in the same period of 2016. The change is a result of proceeds from the line of credit to finance the plant expansion and improvements, offset by dividends paid and final payments on the Company's notes payable to previously repurchase common shares.

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.

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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.