



Second Quarter Report
Six Months Ended April 30, 2010

Item 1. Exact name of the issuer and the address of its principal executive offices.

The exact name of the issuer is YoCream International, Inc.

The address of the issuer's executive office is as follows:

YoCream International, Inc.
5858 NE 87th Avenue
Portland, OR 97220

Phone: (503) 256-3754
Fax: (503) 416-2495
Website: www.yocream.com

Investor Relations: Terry Lusetti
Phone: (503) 256-3754
E-mail: terryl@yocream.com

Item 2. Shares outstanding.

2010 second fiscal quarter:

Period end date	April 30, 2010
Common Stock	
(i) Authorized	30,000,000
(ii) Issued and outstanding	2,607,898
(iii) Freely tradeable shares (estimated public float)	1,025,000
(iv) Total number of beneficial shareholders	N/A
(v) Total number of shareholders of record	116
Preferred Stock	
(i) Authorized	5,000,000
(ii) Issued and outstanding	-
(iii) Freely tradeable shares (public float)	-
(iv) Total number of beneficial shareholders	-
(v) Total number of shareholders of record	-

Item 3. Interim financial statements.

The following unaudited financial statements for the Company's second quarter and six months ended April 30, 2010 are attached to this quarterly report and are incorporated by reference herein.

Unaudited Balance Sheets
Unaudited Statements of Income
Unaudited Statements of Cash Flows
Unaudited Statements of Changes in Stockholders' Equity
Notes to Financial Statements

Item 4. Management's discussion and analysis

Forward-Looking Statements

This Management's Discussion and Analysis and other sections of this Report contain forward-looking statements within the meaning of the Securities Litigation Reform Act of 1995 that are based on current expectations, estimates and projections about the Company's business, management's beliefs, and assumptions made by management. Words such as "expects," "anticipates," "intends," "plans," "believes," "seeks," "estimates" and variations of such words and similar expressions are intended to identify such forward-looking statements. These statements are not guarantees of future performance and involve risks and uncertainties that are difficult to predict. Therefore, actual outcomes and results may differ materially from what is expressed or forecasted in such forward-looking statements due to numerous factors including changes in demand for the Company's products, product mix, level of customer acceptance of new products, changes in customer relationships and strategic alliances, changes in distribution capabilities, excess or shortage of production capacity, changes in competitive or regulatory conditions affecting the Company's products, operations, pricing or service, and other risks discussed in this Report and from time to time in the Company's other financial reports. In addition, such statements could be affected by general industry and market conditions and growth rates, and general domestic and international economic conditions. Such forward-looking statements speak only as of the date on which they are made and the Company does not undertake any obligation to update any forward-looking statement to reflect events or circumstances after the date of this Report.

Results of Operations

YoCream International, Inc. is a world leader in the frozen yogurt industry. Since 1977, YoCream has pioneered the innovation, production and marketing of frozen yogurt and fruit-based frozen desserts and beverages. The Company operates a state-of-the-art production facility in Portland, Oregon, to manufacture its "true" frozen yogurt, which contains the real yogurt that is fermented and cultured on site daily.

YoCream's products are characterized by great flavor and significant health benefits. The Company offers over 110 flavors of frozen yogurt, ice cream, frozen custard, sorbet, smoothies, frozen carbonated beverages, slushes and frozen drink mixes. In addition to the YoCream brand, the Company also provides other branded flavors such as Hershey's™ (e.g. Hershey's™ Kisses™, Reese's™, York™, Jolly Rancher™, Twizzlers™, Bubble Yum™) and Rockstar™ under exclusive licenses. Due to the nature of these products, sales are subject to seasonal fluctuations, with the summer months normally being the busiest season. The introduction and roll out of new products and growth in new market segments results in spikes in business which the Company views as normal operations.

YoCream sells its products primarily to a broad range of foodservice customers including frozen yogurt shops, convenience stores, warehouse stores, quick service restaurants, colleges, healthcare facilities, restaurants, and military and government foodservice locations. The Company's products are sold domestically and internationally through a strong and growing network of over 250 brokers and distributors to these thousands of retailers.

Sales for the three months ended April 30, 2010 increased 11.3% to \$14,062,000. Sales for the six months increased 9.4% to \$23,276,000.

Sales of the Company's core frozen yogurt business grew 52.1% in the second quarter following 30.9% in the first quarter. Frozen yogurt sales continue to be robust in the Southwest, with the addition of 13 new

distributors and growth of 22.5% for April alone. This performance is a significant indication of sustainable growth in a market that could be considered as mature.

Sales of specialty products to two major national accounts were impacted by the anticipated establishment of secondary suppliers; however, the Company expects to remain as the major supplier for these accounts. Management believes that after assisting a major national account in the development and rollout of a new product it is a customary pattern for large accounts to eventually seek a secondary supplier. The Company continues to work with large national accounts, and four more are presently in test with different products.

The expansion of regional frozen yogurt chains and the increase in independent shops throughout the country continues to intensify consumer awareness of frozen yogurt and the enjoyment of frequenting these healthy and creative establishments. The Company recognized the need to educate entrepreneurs about sound foodservice operations and established YoCream University (YO - U™) in August 2009. This intensive two-day course on starting and operating a frozen yogurt business is offered monthly for a modest fee. Many YoCream University graduates have already opened their businesses and more are set to open before summer 2010.

Frozen beverage category sales for the six months of fiscal 2010 increased 6.0%. The Company anticipates future growth in frozen beverages with customer commitments to feature flavors like Ice Breakers™ Sugar Free Peach Dragonfruit and Twizzlers™. Sales of the core Jolly Rancher™ Watermelon and Green Apple flavors are being complemented by new Jolly Rancher™ Tropical Tremor™ Pomegranate, Mango, Sour Green Apple and Wild Berry flavors. These items are sold, especially in convenience stores, both as frozen carbonated beverages and also as frozen slushes.

Gross profit margins for the second quarters of fiscal 2010 and 2009 were 45.2% and 49.4% respectively, and for the six months were 44.8% and 47.0% respectively. The margin reductions are primarily the result of increased dairy ingredient costs and an increase in equipment lease costs related to 2009 investments for expanded production capacity.

Distribution expenses for the second quarter increased to 11.3% from 9.1%, and for the six months increased to 11.4% from 9.2%. Distribution expenses consist of freight and storage costs. The increases in fiscal 2010 are primarily related to increased fuel surcharges, expedited freight shipments, and some shift in freight arrangements from “buyer pickup” to “delivered” freight. The change in freight arrangements resulted in a corresponding increase in sales of approximately \$313,000.

Sales and marketing expenses for the second quarter increased to 7.5% from 7.2%, and for the six months increased to 7.7% from 7.5%. The increase in sales and marketing expenses primarily relate to samples, food shows and travel. Management believes that the intensified sales and marketing activities are consistent with the market opportunities.

General and administrative expenses for the second quarter decreased to 5.9% from 7.6%, and for the six months decreased to 6.8% from 7.8%. The decrease as a percentage of sales primarily relates to a reduction in personnel costs.

Income from operations for the second quarter of fiscal 2010 was \$2,888,000 compared with \$3,223,000 for the same period in 2009. As a percentage of sales for the quarter, income from operations was 20.5% compared with 25.5% in 2009. Income from operations for the six months of 2010 was \$4,387,000 compared with \$4,796,000 for the same period in 2009. As a percentage of sales for the six months, income from operations was 18.8% compared with 22.5% in 2009. The changes were due to the factors described above.

Interest expense was lower in the second quarter and six months of 2010 compared to the same periods in the prior year as a result of the reduction in total debt outstanding and a reduction in long term debt swap rates.

The effective tax rate in the second quarter increased to 37.8% from 35.0%, and for the six months increased to 37.1% from 35.0%. The increase in the effective tax rate primarily relates in an increase in state tax rates.

Net income for the second quarter of 2010 was \$1,735,000, or \$0.67 per share compared with \$1,840,000, or \$0.76 per share for the same period in 2009. Net income for the six months of 2010 was \$2,637,000, or \$1.01 per share compared with \$2,795,000, or \$1.16 per share for the same period in 2009.

Liquidity and Capital Resources

In recent years, the Company has financed its operations and expansion from internally generated funds, bank loans, industrial revenue bonds and operating leases.

At April 30, 2010 and October 31, 2009, cash and cash equivalents amounted to \$6,265,000 and \$12,118,000, respectively. The decrease during the first six months of fiscal 2010 relates to the payment of a special one-time dividend.

In November 2009, the Company declared a special one-time dividend of \$2 per share paid on December 1, 2009 to shareholders of record as of the close of business on November 17, 2009. Total dividends paid approximate \$5,173,000.

At April 30, 2010 accounts receivable of \$5,151,000 is higher than normal due a receivable of approximately \$1,200,000 from a former distributor that is unpaid. The Company is taking appropriate steps to collect this account and expects a full recovery. There was also a significant level of sales in late April to other distributors so that this business could be smoothly transitioned without impact to our customers.

The Company has an unutilized bank line of credit of \$3,000,000, which matures in July 2010. In addition, the Company has an unutilized unsecured revolving line of credit which provides the option to borrow an additional \$1,000,000.

At April 30, 2010 and October 31, 2009, the Company had working capital of approximately \$13,130,000 and \$15,877,000, respectively.

The Company believes its existing assets, bank lines, and cash flow from operations will be sufficient to fund the Company's operations for at least the next twelve months.

Off Balance Sheet Arrangements

Through fiscal year 2009, the Company has entered into operating leases relating to certain assets utilized in its production process. There were no additional operating leases arranged in the second quarter of fiscal 2010. The Company also leases its offices, production facility and warehouse from a related party with terms of 15 to 40 years. These off balance sheet arrangements are more fully described in the notes to the Company's audited annual statements.

Subsequent Event

Not applicable

5. Legal proceedings

Not applicable

6. Defaults upon senior securities

Not applicable

7. Other information

Not applicable

8. Exhibits.

None

9. Certifications

I, John N. Hanna, certify that:

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

June 16, 2010

By: /s/ John N. Hanna
John N. Hanna
Chairman and Chief Executive Officer

I, W. Douglas Caudell, certify that:

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

June 16, 2010

By: /s/ W. Douglas Caudell
W. Douglas Caudell
Chief Financial Officer

YOCREAM INTERNATIONAL, INC.

FINANCIAL STATEMENTS

YOCREAM INTERNATIONAL, INC.

BALANCE SHEETS

	April 30, 2010 <u>(Unaudited)</u>	October 31, 2009 <u>(Audited)</u>
ASSETS		
Current assets		
Cash and cash equivalents	\$ 6,264,973	\$ 12,118,067
Accounts receivable, net	5,151,177	2,542,618
Inventories	6,368,415	5,151,899
Income tax receivable	-	100,248
Other current assets	712,228	569,775
Deferred tax assets	<u>243,775</u>	<u>243,775</u>
Total current assets	18,740,568	20,726,382
Fixed assets, net	14,594,681	14,712,748
Intangible and other long-term assets, net	1,304,730	1,196,655
Deferred tax assets	<u>294,900</u>	<u>309,500</u>
	<u>\$ 34,934,879</u>	<u>\$ 36,945,285</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Note payable – line of credit	\$ -	\$ -
Current portion of long-term debt	520,414	647,873
Accounts payable	4,183,273	3,440,694
Income tax payable	613,402	-
Other accrued liabilities	<u>293,164</u>	<u>761,085</u>
Total current liabilities	5,610,253	4,849,652
Long-term debt, less current portion	7,085,972	7,378,449
Deferred tax liabilities	2,163,975	2,144,975
Other liabilities	<u>159,905</u>	<u>145,250</u>
Total liabilities	<u>15,020,105</u>	<u>14,518,326</u>
Shareholders' equity		
Preferred stock, no par value, none issued or outstanding	-	-
Common stock, no par value, 30,000,000 shares authorized, 2,607,898 issued and outstanding as of April 2010 and October 2009	7,750,865	7,750,865
Retained earnings	12,636,809	15,172,494
Accumulated other comprehensive income	<u>(472,900)</u>	<u>(496,400)</u>
Total shareholders' equity	<u>19,914,774</u>	<u>22,426,959</u>
	<u>\$ 34,934,879</u>	<u>\$ 36,945,285</u>

The accompanying notes are an integral part of these statements.

YOCREAM INTERNATIONAL, INC.

STATEMENTS OF INCOME
(Unaudited)

	Three Months Ended April 30,		Six Months Ended April 30,	
	2010	2009	2010	2009
Sales	\$ 14,061,607	\$ 12,626,710	\$ 23,276,072	\$ 21,268,610
Cost of goods sold	<u>7,700,774</u>	<u>6,384,630</u>	<u>12,839,919</u>	<u>11,267,978</u>
Gross profit	6,360,833	6,242,080	10,436,153	10,000,632
Operating costs and expenses				
Distribution expenses	1,591,863	1,149,728	2,663,984	1,950,911
Selling, and marketing expenses	1,058,771	908,014	1,796,012	1,602,222
General and administrative expenses	<u>822,628</u>	<u>960,954</u>	<u>1,589,550</u>	<u>1,651,467</u>
Income from operations	2,887,571	3,223,384	4,386,607	4,796,032
Other income (expenses)				
Interest income	5,586	7,559	13,121	16,754
Interest expense	(100,272)	(119,112)	(206,753)	(232,388)
Restricted stock compensation	<u>-</u>	<u>(280,500)</u>	<u>-</u>	<u>(280,500)</u>
Income before income taxes	2,792,885	2,831,331	4,192,975	4,299,898
Income tax provision	<u>(1,057,600)</u>	<u>(991,000)</u>	<u>(1,556,000)</u>	<u>(1,505,000)</u>
Net income	<u>\$ 1,735,285</u>	<u>\$ 1,840,331</u>	<u>\$ 2,636,975</u>	<u>\$ 2,794,898</u>
Earnings per common share – basic	<u>\$0.67</u>	<u>\$0.80</u>	<u>\$1.01</u>	<u>\$1.22</u>
Earnings per common share – diluted	<u>\$0.67</u>	<u>\$0.76</u>	<u>\$1.01</u>	<u>\$1.16</u>
Shares used in basic earnings per share	<u>2,607,898</u>	<u>2,305,418</u>	<u>2,607,898</u>	<u>2,283,814</u>
Shares used in diluted earnings per share	<u>2,607,898</u>	<u>2,426,484</u>	<u>2,607,898</u>	<u>2,415,553</u>

The accompanying notes are an integral part of these statements.

YOCREAM INTERNATIONAL, INC.

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

	<u>Shares</u>	<u>Amounts</u>	<u>Unearned Compensation - Restricted Stock</u>	<u>Retained Earnings</u>	<u>Accumulated Other Comprehensive Income</u>	<u>Total Shareholders' Equity</u>
Balance, October 31, 2008	2,262,210	\$ 6,618,865	\$ (1,623,830)	\$ 9,533,723	\$ (307,700)	\$ 14,221,058
Comprehensive income:						
Net income	-	-	-	5,638,771	-	5,638,771
Change in fair value of derivative financial instruments, net of income taxes of (\$117,600)	-	-	-	-	(188,700)	(188,700)
Comprehensive income						5,450,071
Restricted stock vested	345,688	-	1,623,830	-	-	1,623,830
Excess tax benefit of restricted stock vested	-	1,132,000	-	-	-	1,132,000
Balance, October 31, 2009	2,607,898	\$ 7,750,865	\$ -	\$ 15,172,494	\$ (496,400)	\$ 22,426,959
Comprehensive income:						
Net income	-	-	-	2,636,975	-	2,636,975
Change in fair value of derivative financial instruments, net of income taxes of \$14,600	-	-	-	-	23,500	23,500
Comprehensive income						2,660,475
Cash dividend payment	-	-	-	(5,172,660)	-	(5,172,660)
Balance, April 30, 2010	<u>2,607,898</u>	<u>\$ 7,750,865</u>	<u>\$ -</u>	<u>\$ 12,636,809</u>	<u>\$ (472,900)</u>	<u>\$ 19,914,774</u>

The accompanying notes are an integral part of these statements

YOCREAM INTERNATIONAL, INC.

STATEMENTS OF CASH FLOWS

For the six months ended April 30, 2010 and 2009
(Unaudited)

	<u>2010</u>	<u>2009</u>
Cash flows from operating activities		
Net income	\$ 2,636,975	\$ 2,794,898
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	541,634	497,559
Deferred income taxes	19,000	105,400
Change in assets and liabilities		
Accounts receivable	(2,608,559)	(601,306)
Inventories	(1,216,516)	(2,063,220)
Other assets	(250,528)	(66,983)
Accounts payable	923,253	505,496
Income taxes payable	713,650	(1,284,300)
Restricted stock compensation	-	280,500
Other accrued liabilities	(453,266)	(147,067)
Net cash provided by operating activities	<u>305,643</u>	<u>20,977</u>
Cash flows from investing activities		
Proceeds from sale and leaseback of equipment	-	438,753
Expenditures for fixed assets	(604,241)	(1,615,837)
Net cash used in investing activities	<u>(604,241)</u>	<u>(1,177,084)</u>
Cash flows from financing activities		
Principal payments on long-term debt	(381,836)	(357,223)
Excess tax benefits of restricted stock	-	253,100
Cash dividend payment	(5,172,660)	-
Net cash used in financing activities	<u>(5,554,496)</u>	<u>(104,123)</u>
Net decrease in cash and cash equivalents	(5,853,094)	(1,260,230)
Cash and cash equivalents, beginning of period	<u>12,118,067</u>	<u>7,169,393</u>
Cash and cash equivalents, end of period	<u>\$ 6,264,973</u>	<u>\$ 5,909,163</u>

The accompanying notes are an integral part of these statements.

YOCREAM INTERNATIONAL, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE A – BASIS OF PRESENTATION

The accompanying unaudited financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments, which consist of normal recurring accruals, considered necessary for a fair presentation have been included. Operating results for the periods ended April 30, 2010 are not necessarily indicative of the results that may be expected for the year ending October 31, 2010. For further information, refer to the audited financial statements and related footnotes included in the Company's annual report for the year ended October 31, 2009.

NOTE B – ADOPTION OF ACCOUNTING PRONOUNCEMENTS

In June 2009, the FASB issued "The FASB Accounting Standards Codification and Hierarchy of Generally Accepted Accounting Principles", which establishes the FASB Accounting Standards Codification ("ASC") as the source of authoritative accounting principles recognized by the FASB to be applied in preparation of financial statements in conformity with GAAP. The ASC is effective for financial statements issued for interim and annual periods ending after September 15, 2009. The Codification does not change or alter existing generally accepted accounting principles. The implementation had no impact to the Company's financial position or results of operations.

As of November 1, 2008, the Company adopted "Accounting for Uncertainty in Income Taxes — an interpretation of FASB Statement No. 109," which clarifies the accounting and disclosure for uncertainty in tax positions, as defined. Based on a review of its tax returns, the Company believes that its income tax filing positions and deductions would be sustained on audit and does not anticipate any adjustments that would result in a material change to its financial position. Therefore, no reserves for uncertain income tax positions have been recorded pursuant to the adoption. The Company's policy for recording any interest or penalties, if applicable, associated with audits would be to record such items as a component of income tax expense. There were no such items during the periods covered by this report.

NOTE C - INVENTORIES

Inventories consist of the following:

	April 30, 2010	October 31, 2009
	<u> </u>	<u> </u>
Finished goods	\$ 4,166,567	\$ 3,842,871
Raw materials	1,716,619	974,379
Packaging material and supplies	<u>485,229</u>	<u>334,649</u>
	<u>\$ 6,368,415</u>	<u>\$ 5,151,899</u>

NOTE D – CURRENT AND LONG-TERM DEBT

In December 2003, the Company finalized the terms of the master finance lease facility in the amount of \$2,952,553. The facility provides for payments over seven years with interest at 30-day LIBOR plus 175 basis points. In November 2004, the Company exercised its option to enter into a swap arrangement to fix the rate at 5.88% for the term of the lease. The facility is collateralized by the initial aseptic system project assets, and by certain other equipment and fixtures.

On October 30, 2006, the Company closed the financing of multi-mode variable rate industrial revenue bonds in the amount of \$6,700,000. On January 4, 2007, the bonds were converted to tax-exempt bonds that provide for monthly interest payments at a weekly floating rate, which was 0.54% at April 30, 2010. The Company also entered into a ten-year swap arrangement, which provided for a rate of 4.08%, less 71% of the one month LIBOR rate (.20% at April 30, 2010, which has historically approximated the tax-exempt floating rate). At April 30, 2010 the overall effective rate was approximately 4.42%. Principal payments began February 1, 2008 and continue in varying amounts through February 1, 2038. The bonds are secured by a direct pay letter of credit provided by KeyBank National Association, which provides for an annual fee of 1.35% of the bonds outstanding. The direct pay letter of credit was intended to be for a rolling period of five years, subject to review and extension each year. Due to the unusual events that affected the credit markets in 2009, the cost of extending the direct pay letter of credit was not feasible in October 2009. It was determined by all parties involved that a fifth year would not be added at that time. Accordingly, the letter of credit is currently extended to October 22, 2013. The term may be extended to the original five years at the upcoming renewal date in October 2010. The collateral for the direct pay letter of credit is a reimbursement agreement, leasehold deed of trust on one of the parcels of property leased by the Company, an assignment of the lease on the other parcel leased by the Company, and a security interest in certain equipment with a cost of \$1,345,000, which was financed with bond proceeds.

In March 2007, the Company arranged financing for certain technology equipment, and software. At October 31, 2008 the balance on the line was \$139,000. In January 2009 this financing arrangement was converted to a two year term note with interest at prime plus 1.00% (4.25% at April 30, 2010). The collateral for the term note is a security interest in certain technology equipment.

In November 2007, the Company closed a financing arrangement with the Portland Development Commission, which provides a grant of \$90,000 and a loan of \$90,000. The loan does not require any interest or principal payments during the first two years. The remaining term is 7 years, with payments based on a 20 year amortization schedule and a 1% interest rate. The financing was arranged in conjunction with adding a new energy efficient roof on the main plant building.

The Company has an unsecured bank line of credit which permits borrowing up to \$3,000,000. The line bears interest at the bank's commercial lending rate, 3.25% at April 30, 2010. The line is subject to renewal by July 2010. There were no amounts drawn on this line at April 30, 2010.

The Company also has an unsecured revolving bank line of credit that permits borrowing an additional \$1,000,000 with the same interest rate and maturity as described above.

The bank line of credit, master finance lease, and reimbursement agreement related to the bond financing all contain the same financial covenants, including ones related to the ratio of senior liabilities (as defined) to adjusted tangible capital, current ratio and operating cash flow to fixed charge

YOCREAM INTERNATIONAL, INC.

NOTES TO FINANCIAL STATEMENTS

as well as limits on the amount of common stock which can be repurchased by the Company. At April 30, 2010, the Company was in compliance with all of these ratios and covenants.

NOTE E – FAIR VALUE OF DERIVATIVE FINANCIAL INSTRUMENTS

In November 2004, the Company entered into an interest rate swap agreement relating to the master finance lease obligation, which converted the variable interest rate paid on its debt to a fixed rate of 5.88%. This agreement will terminate on January 1, 2011. The mark-to-market adjustments were \$5,400 and \$14,200, and the related tax effect was \$(2,100) and \$(5,500), at April 30, 2010 and October 31, 2009, respectively. To the extent that the fixed rate is higher than the interest rates provided for in the lease agreement, payment is due from the Company for the difference. To the extent that the fixed rate is below the interest rates provided for in the lease agreement, the Company is entitled to receive the difference.

In October 2006, the Company entered into an interest rate swap agreement relating to the multi-mode industrial revenue bonds, which converted the variable interest rate to a tax-exempt “fixed” rate of 4.08%, as described in Note D. This agreement will terminate on October 30, 2016. The mark-to-market adjustments were \$762,400, and \$791,700, and the related tax effects were \$(292,800) and \$(304,000) at April 30, 2010 and October 31, 2009, respectively.

It is the Company’s policy to enter into agreements when management deems them useful in reducing risks to the Company. As required by the Derivatives and Hedging Topic of the FASB ASC, the Company has reviewed and designated its interest rate swap agreements as cash flow hedges and recognizes the fair value of its interest rate swap agreements on the balance sheet. Changes in the fair value of these agreements are recorded, net of taxes, in accumulated other comprehensive income. The hedge ineffectiveness, if any, is recorded in earnings.

NOTE F – COMPREHENSIVE INCOME

Comprehensive income for the three-month periods ended April 30, are as follows:

	<u>2010</u>	<u>2009</u>
Net income	\$ 1,735,285	\$ 1,840,331
Change in fair value of derivative financial instruments, net of taxes \$1,100 in 2010 and (\$21,100) in 2009	<u>(1,600)</u>	<u>33,900</u>
Comprehensive income	<u>\$ 1,733,685</u>	<u>\$ 1,874,231</u>

YOCREAM INTERNATIONAL, INC.
NOTES TO FINANCIAL STATEMENTS

Comprehensive income for the six-month periods ended April 30, are as follows:

	2010	2009
Net income	\$ 2,636,975	\$ 2,794,898
Change in fair value of derivative financial instruments, net of taxes (\$14,600) in 2010 and \$162,700 in 2009	23,500	(261,100)
Comprehensive income	\$ 2,660,475	\$ 2,533,798

NOTE G – EARNINGS PER SHARE

Earnings per share are calculated as follows for the three months ended April 30, 2010 and 2009

	Three Months Ended April 30, 2010		
	Net Earnings (Numerator)	Shares (Denominator)	Per-Share Amount
Basic earnings per share:			
Net Income	\$ 1,735,285	2,607,898	\$ 0.67
Effect of dilutive securities	-	-	-
Diluted earnings per share	\$ 1,735,285	2,607,898	\$ 0.67

There were no dilutive shares outstanding, see NOTE I.

	Three Months Ended April 30, 2009		
	Net Earnings (Numerator)	Shares (Denominator)	Per-Share Amount
Basic earnings per share:			
Net Income	\$ 1,840,331	2,305,418	\$ 0.80
Effect of dilutive securities	-	121,066	(0.04)
Diluted earnings per share	\$ 1,840,331	2,426,484	\$ 0.76

YOCREAM INTERNATIONAL, INC.
NOTES TO FINANCIAL STATEMENTS

Earnings per share are calculated as follows for the six months ended April 30, 2010 and 2009:

	Six Months Ended April 30, 2010		
	Net Earnings (Numerator)	Shares (Denominator)	Per-Share Amount
Basic earnings per share:			
Net Income	\$ 2,636,975	2,607,898	\$ 1.01
Effect of dilutive securities	-	-	-
Diluted earnings per share	\$ 2,636,975	2,607,898	\$ 1.01

There were no dilutive shares outstanding, see NOTE I.

	Six Months Ended April 30, 2009		
	Net Earnings (Numerator)	Shares (Denominator)	Per-Share Amount
Basic earnings per share:			
Net Income	\$ 2,794,898	2,283,814	\$ 1.22
Effect of dilutive securities	-	131,739	(0.06)
Diluted earnings per share	\$ 2,794,898	2,415,553	\$ 1.16

NOTE H – SUPPLEMENTAL CASH FLOW INFORMATION

Supplemental cash flow information for the six months ended April 30, are as follows:

	2010	2009
Cash paid during the period for income taxes	\$ 823,400	\$ 2,430,800
Cash paid during the period for interest	\$ 165,700	\$ 190,000
Fair value of interest rate swap, net of taxes	\$ 23,500	\$ (261,100)
Deferred taxes related to interest rate swap	\$ (14,600)	\$ 162,700
Payment (accrual) of vendor payables used to acquire capital assets	\$ 180,700	\$ (335,400)

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NOTE I – STOCK INCENTIVE PLAN

The Company has a stock incentive plan that was approved by shareholders in April 2005.

On February 28, 2009, 63,750 restricted shares vested under the 2006 award and the related compensation expense was \$280,500.

Effective May 1, 2009, the Board of Directors approved modifications in the 2005 and 2006 restricted share awards, which resulted in the vesting of the remaining 281,938 shares. The related restricted stock compensation expense is \$1,343,000. The modifications took into consideration both past performance and the expected results for fiscal year 2009, which were achieved. The Company does not plan further issuance of restricted stock.

At April 30, 2010 and October 31, 2009 there were 15,000 shares of common stock available for issuance under the Company's stock incentive plan.

NOTE J – RELATED PARTY TRANSACTIONS

In April 2010, the Board of Directors approved the Company entering into a Right of First Offer Agreement with the companies (related parties) from which YoCream leases its production and office facilities. Under the terms of this agreement the Landlord granted to the Company a right of first offer to purchase all of the leased property, subject to certain terms. In exchange for this agreement the Company made a payment of \$150,000, which will be amortized over the term of the leases.

NOTE K – SUBSEQUENT EVENTS

The date to which events occurring after April 30, 2010, the date of the most recent balance sheet, have been evaluated for possible adjustments to the financial statements or disclosure was June 16, 2010, which is the date on which the financial statements were available to be issued.