



First Quarter Report  
Three Months Ended January 31, 2009

YOCREAM INTERNATIONAL, INC  
BALANCE SHEETS

	January 31, 2009 <u>(Unaudited)</u>	<u>October 31, 2008</u>
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents	\$ 5,103,326	\$ 7,169,393
Accounts receivable, net of allowance for doubtful accounts	2,469,838	2,346,555
Inventories	3,917,131	3,614,226
Other current assets	415,211	346,722
Deferred tax assets	<u>218,877</u>	<u>218,877</u>
Total current assets	12,124,383	13,695,773
Fixed assets, net	14,858,289	14,297,886
Intangible and other long-term assets, net	1,091,767	1,108,290
Deferred tax assets	<u>375,700</u>	<u>191,900</u>
	<u>\$ 28,450,139</u>	<u>\$ 29,293,849</u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current liabilities		
Note payable – line of credit	\$ -	\$ -
Current portion of long-term debt	613,503	616,155
Accounts payable	2,281,867	2,661,073
Income tax payable	646,806	1,778,606
Other accrued liabilities	<u>452,083</u>	<u>833,459</u>
Total current liabilities	3,994,259	5,889,293
Long-term debt, less current portion	8,089,298	7,720,045
Deferred tax liabilities	1,362,077	1,344,077
Other liabilities	<u>123,880</u>	<u>119,376</u>
Total liabilities	<u>13,569,514</u>	<u>15,072,791</u>
Shareholders' equity		
Preferred stock, no par value, none issued or outstanding	-	-
Common stock, no par value, 30,000,000 shares authorized, 2,262,210 issued and outstanding as of January 2009 and October 2008	6,618,865	6,618,865
Unearned compensation – restricted stock	(1,623,830)	(1,623,830)
Retained earnings	10,488,290	9,533,723
Accumulated other comprehensive income	<u>(602,700)</u>	<u>(307,700)</u>
Total shareholders' equity	<u>14,880,625</u>	<u>14,221,058</u>
	<u>\$ 28,450,139</u>	<u>\$ 29,293,849</u>

The accompanying notes are an integral part of these statements.

YOCREAM INTERNATIONAL, INC.  
STATEMENTS OF INCOME

For the three months ended January 31, 2009 and 2008  
(Unaudited)

	<u>2009</u>	<u>2008</u>
Sales	\$ 8,641,900	\$ 5,136,176
Cost of goods sold	<u>4,883,348</u>	<u>3,117,198</u>
Gross profit	3,758,552	2,018,978
Operating costs and expenses		
Distribution expenses	801,183	675,988
Selling and marketing expenses	694,208	539,492
General and administrative expenses	<u>690,513</u>	<u>518,738</u>
Income from operations	1,572,648	284,760
Other income (expense)		
Interest income	9,195	1,294
Interest expense	<u>(113,276)</u>	<u>(134,598)</u>
Income before income taxes	1,468,567	151,456
Income tax provision	<u>(514,000)</u>	<u>(51,200)</u>
Net income	<u>\$ 954,567</u>	<u>\$ 100,256</u>
Earnings per common share – basic	\$0.42	\$0.05
Earnings per common share - diluted	\$0.40	\$0.04
Shares used in basic earnings per share	2,262,210	2,174,606
Shares used in diluted earnings per share	2,404,622	2,282,237

The accompanying notes are an integral part of these statements.

YOCREAM INTERNATIONAL, INC.  
STATEMENTS OF CASH FLOWS

For the three months ended January 31, 2009 and 2008  
(Unaudited)

	2009	2008
Cash flows from operating activities		
Net income	\$ 954,567	\$ 100,256
Adjustments to reconcile net income to net cash used in operating activities		
Depreciation and amortization	237,293	231,133
Deferred income taxes	18,000	-
Change in assets and liabilities		
Accounts receivable	(123,283)	237,114
Inventories	(302,905)	(229,985)
Other assets	(51,966)	(169,634)
Accounts payable	(379,206)	(67,563)
Income taxes payable	(1,131,800)	(95,800)
Other accrued liabilities	(376,872)	(251,439)
Net cash used in operating activities	(1,156,172)	(245,918)
Cash flows from investing activities		
Expenditures for fixed assets	(797,696)	(386,912)
Net cash used in investing activities	(797,696)	(386,912)
Cash flows from financing activities		
Proceeds from line of credit	-	541,638
Proceeds from long-term debt	-	90,000
Proceeds from development related grant	-	90,000
Principal payments on long-term debt	(112,199)	(108,933)
Net cash provided by (used in) financing activities	(112,199)	612,705
Net decrease in cash and cash equivalents	(2,066,067)	(20,125)
Cash and cash equivalents, beginning of period	7,169,393	70,701
Cash and cash equivalents, end of period	\$ 5,103,326	\$ 50,576

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 quarter ended January 31, 2009 are not necessarily indicative of the results that may be expected for the year ending October 31, 2009. For further information, refer to the financial statements and related footnotes included in the Company's annual report for the year ended October 31, 2008.

NOTE B - INVENTORIES

Inventories consist of the following:

	January 31, 2009	October 31, 2008
Finished goods	\$ 2,476,455	\$ 2,484,833
Raw materials	1,021,845	775,644
Packaging material and supplies	418,831	353,749
	<u>\$ 3,917,131</u>	<u>\$ 3,614,226</u>

NOTE C – 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 (2.16% at January 31, 2009). 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. Initially the bonds provided for a taxable interest rate of 5.36%. On January 4, 2007, the bonds were subsequently converted to tax-exempt bonds and the Company entered into a swap arrangement to fix the tax-exempt rate at 4.08% for ten years. The bonds provide for monthly interest payments based on the weekly tax-exempt interest rate. 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 is for a rolling period of five years and is subject to review and extension each year. It is expected that the term will be extended at the normal mid-year renewal date. 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 a five year finance lease and a related interim non-revolving line of credit for \$272,000 to purchase certain technology equipment, and software. At October 31,

YOCREAM INTERNATIONAL, INC.

NOTES TO FINANCIAL STATEMENTS

2008 the balance on the line was \$139,000. In January 2009 this line was converted to a two year term note with interest at prime plus 1.00%. 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 8 years, with payments based on a 20 year amortization schedule and a low interest rate subject to complying with certain requirements to add jobs. 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 January 31, 2009. The line is subject to renewal by July 2010. There were no amounts drawn on this line at January 31, 2009.

The unsecured revolving line of credit also provides the option to borrow an additional \$1,000,000 subject to certain limitations based on levels of eligible receivables and inventory.

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 as well as limits on the amount of common stock which can be repurchased by the Company. At January 31, 2009, the Company was in compliance with all of these ratios and covenants.

NOTE D – FAIR VALUE OF DERIVATIVE FINANCIAL INSTRUMENTS

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%. This agreement will terminate on October 30, 2016. The mark-to-market adjustments were \$948,900, and \$480,400, and the related tax effects were \$(364,400) and \$(184,500) at January 31, 2009 and October 31, 2008, respectively.

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 \$29,500 and \$19,200, and the related tax effect was \$(11,300) and \$(7,400), at January 31, 2009 and October 31, 2008 respectively.

It is the Company's policy to enter into interest rate swap agreements when management deems them useful in reducing risks to the Company. To the extent that the fixed rate is higher than the interest rates provided for in the lease or bond facilities, 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 or bond facilities, the Company is entitled to receive the difference. In accordance with SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended, the Company has reviewed and designated its interest rate swap agreement as a cash flow hedge and recognizes the fair value of its interest rate swap agreement on the balance sheet. Changes in the fair value of this agreement are recorded, net of taxes, in accumulated other comprehensive income. The hedge ineffectiveness, if any,

YOCREAM INTERNATIONAL, INC.

NOTES TO FINANCIAL STATEMENTS

is recorded in earnings. There was no hedge ineffectiveness for the periods ended January 31, 2009, or October 31, 2008.

NOTE E – COMPREHENSIVE INCOME

Comprehensive income for the three-month periods ended January 31, are as follows:

	<u>2009</u>	<u>2008</u>
Net income	\$ 954,567	\$ 100,256
Change in fair value of derivative financial instruments, net of taxes \$183,800 in 2009 and \$130,500 in 2008	<u>(295,000)</u>	<u>(209,300)</u>
Comprehensive income (loss)	<u>\$ 659,567</u>	<u>\$ (109,044)</u>

NOTE F – EARNINGS PER SHARE

Earnings per share are calculated as follows for the three months ended January 31, 2009 and 2008:

	<u>Three Months Ended January 31, 2009</u>		
	<u>Net Earnings (Numerator)</u>	<u>Shares (Denominator)</u>	<u>Per-Share Amount</u>
Basic earnings per share:			
Net Income	\$ 954,567	2,262,210	\$ 0.42
Effect of dilutive securities	<u>                    </u>	<u>142,412</u>	<u>( 0.02)</u>
Diluted earnings per share	<u>\$ 954,567</u>	<u>2,404,622</u>	<u>\$ 0.40</u>

	<u>Three Months Ended January 31, 2008</u>		
	<u>Net Earnings (Numerator)</u>	<u>Shares (Denominator)</u>	<u>Per-Share Amount</u>
Basic earnings per share:			
Net Income	\$ 100,256	2,174,606	\$ 0.05
Effect of dilutive securities	<u>                    </u>	<u>107,631</u>	<u>( 0.01)</u>
Diluted earnings per share	<u>\$ 100,256</u>	<u>2,282,237</u>	<u>\$ 0.04</u>

YOCREAM INTERNATIONAL, INC.  
NOTES TO FINANCIAL STATEMENTS

G – SUPPLEMENTAL CASH FLOW INFORMATION

Supplemental cash flow information for the three months ended January 31, are as follows:

	<u>2009</u>	<u>2008</u>
Cash paid during the period for income taxes	\$ 1,628,000	\$ 147,000
Cash paid during the period for interest	\$ 94,000	\$ 108,000
Fair value of interest rate swap, net of taxes	\$ (295,000)	\$ (209,300)
Deferred taxes related to interest rate swap	\$ 183,800	\$ 130,500

YOCREAM INTERNATIONAL, INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS  
OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion includes forward-looking statements within the meaning of the safe-harbor provisions of the Private Securities Litigation Reform Act of 1995. Such forward looking statements are based on the beliefs of the Company's management and on assumptions made by and information currently available to management. All statements other than statements of historical fact, regarding the Company's financial position, business strategy and plans and objectives of management for future operations of the Company are forward-looking statements. When used herein, the words anticipate, believe, estimate, expect, and intend and words or phrases of similar meaning, as they relate to the Company or management, are intended to identify forward-looking statements. Although the Company believes that the expectations reflected in such forward-looking statements are reasonable, it can give no assurance that such expectations will prove to have been correct. Forward-looking statements are subject to certain risks and uncertainties, which could cause actual results to differ materially from those, indicated by the forward-looking statements. Factors that could cause future results to vary materially from these expectations include, but are not limited to, change in distribution abilities, level of customer acceptance of new products, change in customer relationships and strategic alliances and other economic, competitive, governmental, and regulatory factors affecting the Company's operations, pricing, products and service.

**Results of Operations**

YoCream International, Inc., with headquarters and manufacturing facility in Portland, OR, is a pioneer and leading producer of frozen yogurt. Founded in 1977, YoCream's primary focus is on manufacturing, marketing and sales of superior quality frozen yogurt, along with ice cream and frozen custard mixes under the YoCream brand. YoCream's frozen beverage product lines include Fruitquake™ frozen drinks and smoothies for blender, bar drinks and lemonades or ice teas as well as Jolly Rancher™, Bubble Yum™, Twizzlers™, Ice Breakers™ and Jarritos™ frozen beverages for frozen carbonated and uncarbonated machine dispensing. The Company also packs similar products for other companies. 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 has tended to level the seasonal fluctuations.

Sales for the three months ended January 31, 2009 increased 68.2% to \$8,642,000, and represented the eleventh consecutive quarter of double digit growth. The breakdown of sales by category was as follows:

<u>Category</u>	<u>3 Months 2009</u>	<u>% Total</u>	<u>3 Months 2008</u>	<u>% Total</u>	<u>Dollar Change</u>	<u>% Change</u>
Frozen Desserts	\$7,173,000	83.0%	\$3,511,000	68.4%	\$3,662,000	104.3%
Frozen Beverages	<u>1,469,000</u>	<u>17.0%</u>	<u>1,625,000</u>	<u>31.6%</u>	<u>(156,000)</u>	<u>(9.6%)</u>
Total	<u>\$8,642,000</u>	<u>100.0%</u>	<u>\$5,136,000</u>	<u>100.0%</u>	<u>\$3,506,000</u>	<u>68.2%</u>

YOCCREAM INTERNATIONAL, INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS  
OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The 104.3% increase in frozen dessert sales in the first quarter of 2009 primarily came from the Company's core frozen yogurt products and new business rolled out in the third quarter of fiscal 2008. Strong sales of YoCream's flagship traditional sweeter-profile frozen yogurt and YoCream's popular Original Tart™ and EuroTart™ frozen yogurts have soared in response to consumer demand for great tasting real frozen yogurt with live and active cultures. Consumer's are increasingly recognizing and requesting the superior quality of YoCream's branded frozen yogurt.

All of the Company's frozen yogurts are crafted involving a milk fermentation culturing process that results in high levels of beneficial probiotic live and active yogurt cultures. This attention to detail, along with YoCream's specially developed recipe to ensure smooth and creamy taste, produces the frozen yogurt excellence that consumers seek. YoCream frozen yogurt is currently being sold in more than 1,000 independent and chain frozen yogurt shops in the State of California alone. Sales throughout the nation occur in establishments such as: Fast Food Restaurants (QSR), Business & Industry Cafeterias, Military Installations, Healthcare Facilities, College & Universities, Frozen Yogurt Shops and Convenience Stores. The Company also sells frozen yogurt internationally. Management anticipates positive results in this category to continue based on current trends and the release of new products in the second quarter of 2009.

Sales of Frozen Beverage were slightly off due to customer promotion schedules. New products in this category are scheduled to release in the second quarter of 2009 and sales are expected to seasonally intensify in the months ahead.

Gross profit for the first quarter of 2009 increased 86.1% to \$3,759,000. As a percentage of sales, gross profit margins for the quarter were 43.5% compared to 39.3% for the same period in 2008. The improved margins were primarily the result of increased sales volume. Were it not for the significant risks and related debt that the Company incurred with its costly plant expansion it would not have been possible to strategically meet the increased demand for the Company's products and experience these positive results.

Distribution expenses for the first quarter of 2009 decreased to 9.2% of sales compared with 13.2% for the same period in 2008. The reduction in distribution expenses as a percent of sales in 2009 was achieved as a result of freight efficiencies and lower freight rates.

Sales and marketing expenses for the first quarter of 2009 decreased to 8.0% of sales, compared to 10.5% for the same period in 2008. The decrease as a percentage of sales resulted primarily from the benefit of the increased volume.

General and administrative expenses for the first quarter of 2009 decreased to 7.9% of sales, compared with 10.1% for the same period in 2008. The decrease as a percentage of sales primarily relates to the increase in sales.

Income from operations for the first quarter of 2009 increased to \$1,573,000 from \$285,000 for the same period in 2008. As a percentage of sales, income from operations in 2009 increased to 18.2% compared with 5.5% in 2008. The increase was due to the increase in sales and the economies of scale resulting in reduced operating costs and expenses as a percent of sales. The Company expects the positive sales trend to continue as a result of the demand for soft serve frozen yogurt, new product introductions and continued intense sales activity.

YOCREAM INTERNATIONAL, INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS  
OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Interest expense was lower in the first quarter of 2009 as a result of a reduction in total debt outstanding.

The effective tax rate in the first quarter of 2009 was 35.0% compared with 33.8% for the same period in 2008

Net income for the first quarter of 2009 was \$955,000, or \$0.40 per share compared with \$100,000, or \$0.04 per share for the same period in 2008. Net income as a percentage of sales was 11.0% in 2009, compared with 2.0% in 2008.

**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 January 31, 2009 and October 31, 2008 cash and cash equivalents amounted to \$5,103,000 and \$7,169,000 respectively. The decrease during the first quarter of fiscal 2009 primarily related to the payment of income taxes and capital expenditures.

The Company has an unutilized bank line of credit of \$3,000,000, which matures in July 2010, and provides for an interest rate at prime. The unsecured revolving line of credit also provides the option to borrow an additional \$1,000,000 subject to certain limitations based on levels of eligible receivables and inventory. The bank has also offered an additional \$500,000 term loan line for equipment purchases.

At January 31, 2009 and October 31, 2008, the Company had working capital of approximately \$8,130,000 and \$7,806,000 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 2008, 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 first quarter of fiscal 2009. 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.