



Second Quarter Report
Six Months Ended April 30, 2009

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: .yocream.com

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

Item 2. Shares outstanding.

2009 second fiscal quarter:

Period end date	April 30, 2009
Common Stock	
(i) Authorized	30,000,000
(ii) Issued and outstanding (1)	2,325,960
(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	-

- (1) 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. This increased the issued and outstanding common shares to 2,607,898.

Item 3. Interim financial statements.

The following unaudited financial statements for the Company's second quarter and six months ended April 30, 2009 are attached to this quarterly report and are incorporated by reference herein.

Unaudited Balance Sheet
Unaudited Statements of Income
Unaudited Statements of Cash Flows
Unaudited Statements of Changes in Stockholder's Equity
Notes to Financial Statements

Item 4. Management's discussion and analysis

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, demand for existing products, 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 six months ended April 30, 2009 increased 46.9% to \$21,269,000 and represented the twelfth consecutive quarter of double digit growth.

Frozen dessert category sales increased to \$17,739,000 versus \$9,985,000 a year ago. The 77.7% growth primarily came from the Company's core frozen yogurt products. YoCream has seen sales surge in single-unit stores, the foundation of the frozen yogurt business, as well as in many regional chains, a number of which show potential to become strong national accounts. The Company has been well positioned to meet the demand for true frozen yogurt products. The interest in frozen yogurt remains strong and is intensifying nationwide as more and more consumers understand that the benefits of live and active yogurt cultures can be found in real frozen yogurt products and not just their cup yogurt on the retail shelf. In fact, YoCream's Original Tart™ frozen yogurt culture counts meet the National Yogurt Association's (NYA) criteria for refrigerated cup yogurt. All of YoCream's frozen yogurt products carry the NYA's Live and Active Cultures seal.

New YoCream Select Frozen Yogurts featuring Hershey's® branded flavors were introduced to the market this spring: Hershey's® Kisses™, Heath™, Bubble Yum™, Mounds™, York™, and Reese's™. These specially developed exclusive frozen yogurts deliver rich and creamy taste, just like the candy, and appeal to multiple generations of consumers. The Company anticipates solid sales performance of these flavors and will also be introducing more YoCream Original Tart™ flavors this summer.

Frozen beverage category sales for the six months decreased to \$3,530,000 compared to \$4,493,000 for the corresponding period a year ago. The Company did not receive the same number of flavor rotations for its frozen carbonated beverage (FCB) line for the current quarter in existing customer promotion schedules. Some of these flavor rotations are anticipated for the third quarter. The Company introduced new FCB flavors and brands this spring, which are being shown for consideration in fiscal year 2010 schedules. One large frozen beverage customer chose to move to dual suppliers; however YoCream continues to enjoy a major part of the volume. The planned discontinuation of copacking sales in fiscal year 2008, which impacted the quarterly results of frozen beverage sales, enabled management to concentrate on the surge of interest in the Company's branded products. The Company anticipates future growth in the frozen beverage category with the introduction of new products and access to new accounts.

Another significant component of the Company's noteworthy sales growth is its penetration into the national quick service restaurant market. Management believes that the Company is positioned well to effectively serve each company with both frozen dessert and frozen beverage products, and is expanding its reach to gain additional customers in this major segment.

Gross profit margins for the second quarter increased to 49.4% from 42.0%, and for the six months increased to 47.0% from 41.1%. The improved margins primarily resulted from economies of scale and the decrease in the cost of dairy related raw ingredients. Were it not for the significant investments and related debt that the Company incurred with its plant expansion in fiscal year 2006, as well as the current year facility enhancements, 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 second quarter decreased to 9.1% from 12.2%, and for the six months decreased to 9.2% from 12.5%. 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 second quarter decreased to 7.2% from 7.6%, and for the six months decreased to 7.5% from 8.6%. The decrease as a percentage of sales resulted primarily from the benefit of the increased volume.

General and administrative expenses for the second quarter increased to 7.6% from 6.0%, and for the six months increased to 7.8% from 7.5%. The increase as a percentage of sales relates to personnel costs.

Income from operations for the second quarter increased to \$3,223,000 from \$1,518,000 for the same period in 2008. As a percentage of sales for the quarter, income from operations increased to 25.5% compared with 16.2% in 2008. Income from operations for the six months increased to \$4,796,000 from \$1,803,000 for the same period in 2008. As a percentage of sales for the six months, income from operations increased to 22.5% compared with 12.5% in 2008. The increase was due to the growth in sales and the economies of scale resulting in reduced operating costs and expenses as a percent of sales.

Interest expense was lower in the second quarter and six months of 2009 as a result of the reduction in total debt outstanding.

The effective tax rate in the second quarter and six months of 2009 was 35.0% compared with 34.2% for the same periods in 2008.

Net income for the second quarter of 2009 was \$1,840,000, or \$0.76 per share compared with \$909,000, or \$0.40 per share for the same period in 2008. Net income for the six months of 2009 was \$2,795,000, or \$1.16 per share compared with \$1,009,000, or \$0.44 per share for the same period 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 April 30, 2009 and October 31, 2008, cash and cash equivalents amounted to \$5,909,000 and \$7,169,000, respectively. The decrease during the first quarter of fiscal 2009 primarily related to the payment of income taxes, increase in inventories, 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 April 30, 2009 and October 31, 2008, the Company had working capital of approximately \$9,918,000 and \$7,806,000, respectively.

In conjunction with expanding its production capacity the Company plans to expend approximately \$3 million during the remainder of fiscal year 2009. These expenditures are expected to be funded from existing cash and cash equivalents and cash flow from operations.

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. In the second quarter of fiscal 2009 the Company completed a sale and leaseback transaction, which resulted in recovering approximately \$439,000 of costs. The term of the lease is 60 months. 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

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, which is approximately \$1,092,000 more than the amount that otherwise would have been recognized during fiscal 2009. The modifications took into consideration both past performance and the expected results for the fiscal year.

5. Legal proceedings

Not applicable

6. Defaults upon senior securities

Not applicable

7. Other information

Submission of Matters to a Vote of Security Holders.

The 2009 Annual Meeting of Shareholders was held at the Company's new retail showroom in Portland, Oregon at 10:00 a.m. on March 17, 2009. The Company solicited proxies for the matters brought before the shareholders. 2,410,411 common shares were present in person or by proxy at the meeting, representing 92% of total shares outstanding and entitled to vote.

The shareholders reelected Carl G. Behnke, and William J. Rush as Class I directors to serve for a term of three years, or until their successor shall have been elected and qualified. Both directors received 99.8% of the shares voted. James S. Hanna, John N. Hanna, Frederick M. Kinyon and Joseph J. Hanna each will continue their respective terms as directors after the meeting.

8. Exhibits.

Not applicable

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.

July 10, 2009

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.

July 10, 2009

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

YOCREAM INTERNATIONAL, INC.

FINANCIAL STATEMENTS

YOCREAM INTERNATIONAL, INC

BALANCE SHEETS

	April 30, 2009 <u>(Unaudited)</u>	October 31, 2008 <u>(Audited)</u>
ASSETS		
Current assets		
Cash and cash equivalents	\$ 5,909,163	\$ 7,169,393
Accounts receivable, net	2,947,861	2,346,555
Inventories	5,677,446	3,614,226
Other current assets	446,751	346,722
Deferred tax assets	<u>218,877</u>	<u>218,877</u>
Total current assets	15,200,098	13,695,773
Fixed assets, net	15,312,848	14,297,886
Intangible and other long-term assets, net	1,075,244	1,108,290
Deferred tax assets	<u>354,600</u>	<u>191,900</u>
	<u>\$ 31,942,790</u>	<u>\$ 29,293,849</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Note payable – line of credit	\$ -	\$ -
Current portion of long-term debt	610,813	616,155
Accounts payable	3,502,006	2,661,073
Income tax payable	494,306	1,778,606
Other accrued liabilities	<u>674,848</u>	<u>833,459</u>
Total current liabilities	5,281,973	5,889,293
Long-term debt, less current portion	7,791,964	7,720,045
Deferred tax liabilities	1,449,477	1,344,077
Other liabilities	<u>130,920</u>	<u>119,376</u>
Total liabilities	<u>14,654,334</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, 2,325,960 and 2,262,210 issued and outstanding as of April 2009 and October 2008	6,871,965	6,618,865
Unearned compensation – restricted stock	(1,343,330)	(1,623,830)
Retained earnings	12,328,621	9,533,723
Accumulated other comprehensive income	<u>(568,800)</u>	<u>(307,700)</u>
Total shareholders' equity	<u>17,288,456</u>	<u>14,221,058</u>
	<u>\$ 31,942,790</u>	<u>\$ 29,293,849</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,	
	2009	2008	2009	2008
Sales	\$ 12,626,710	\$ 9,342,286	\$ 21,268,610	\$ 14,478,462
Cost of goods sold	<u>6,384,630</u>	<u>5,416,054</u>	<u>11,267,978</u>	<u>8,533,252</u>
Gross profit	6,242,080	3,926,232	10,000,632	5,945,210
Operating costs and expenses				
Distribution expenses	1,149,728	1,139,512	1,950,911	1,815,500
Selling, and marketing expenses	908,014	707,546	1,602,222	1,247,038
General and administrative expenses	<u>960,954</u>	<u>561,142</u>	<u>1,651,467</u>	<u>1,079,880</u>
Income from operations	3,223,384	1,518,032	4,796,032	1,802,792
Other income (expenses)				
Interest income	7,559	-	16,754	1,294
Interest expense	(119,112)	(135,696)	(232,388)	(270,294)
Restricted stock compensation	<u>(280,500)</u>	<u>-</u>	<u>(280,500)</u>	<u>-</u>
Income before income taxes	2,831,331	1,382,336	4,299,898	1,533,792
Income tax provision	<u>(991,000)</u>	<u>(473,300)</u>	<u>(1,505,000)</u>	<u>(524,500)</u>
Net income	<u>\$ 1,840,331</u>	<u>\$ 909,036</u>	<u>\$ 2,794,898</u>	<u>\$ 1,009,292</u>
Earnings per common share – basic	<u>\$0.80</u>	<u>\$0.42</u>	<u>\$1.22</u>	<u>\$0.46</u>
Earnings per common share – diluted	<u>\$0.76</u>	<u>\$0.40</u>	<u>\$1.16</u>	<u>\$0.44</u>
Shares used in basic earnings per share	<u>2,305,418</u>	<u>2,174,606</u>	<u>2,283,814</u>	<u>2,176,995</u>
Shares used in diluted earnings per share	<u>2,426,484</u>	<u>2,293,957</u>	<u>2,415,553</u>	<u>2,290,486</u>

The accompanying notes are an integral part of these statements.

YOCREAM INTERNATIONAL, INC.

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

	Shares	Amounts	Unearned Compensation - Restricted Stock	Retained Earnings	Accumulated Other Comprehensive Income	Total Shareholders' Equity
Balance, October 31, 2007	2,174,606	\$ 6,426,965	\$ (2,035,000)	\$ 5,154,057	\$ (162,300)	\$ 9,383,722
Comprehensive income:						
Net income	-	-	-	4,379,666	-	4,379,666
Change in fair value of derivative financial instruments, net of income taxes of (\$90,800)	-	-	-	-	(145,400)	(145,400)
Comprehensive income						4,234,266
Stock options exercised	5,000	23,150	-	-	-	23,150
Common stock purchased	(5,000)	(46,250)	-	-	-	(46,250)
Restricted stock vested	87,604	-	411,170	-	-	411,170
Excess tax benefit of stock options and restricted stock vested	-	215,000	-	-	-	215,000
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	-	-	-	2,794,898	-	2,794,898
Change in fair value of derivative financial instruments, net of income taxes of (\$162,700)	-	-	-	-	(261,100)	(261,100)
Comprehensive income						2,533,798
Restricted stock vested	63,750	-	280,500	-	-	280,500
Excess tax benefit of restricted stock vested	-	253,100	-	-	-	253,100
Balance, April 30, 2009	<u>2,325,960</u>	<u>\$ 6,871,965</u>	<u>\$ (1,343,330)</u>	<u>\$ 12,328,621</u>	<u>\$ (568,800)</u>	<u>\$ 17,288,456</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, 2009 and 2008
(Unaudited)

	<u>2009</u>	<u>2008</u>
Cash flows from operating activities		
Net income	\$ 2,794,898	\$ 1,009,292
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	497,559	466,373
Deferred income taxes	105,400	-
Change in assets and liabilities		
Accounts receivable	(601,306)	(1,005,228)
Inventories	(2,063,220)	(716,890)
Other assets	(66,983)	(117,426)
Accounts payable	505,496	741,641
Income taxes payable	(1,284,300)	311,600
Restricted stock compensation	280,500	-
Other accrued liabilities	(147,067)	(153,542)
Net cash provided by operating activities	<u>20,977</u>	<u>535,820</u>
Cash flows from investing activities		
Proceeds from sale and leaseback of equipment	438,753	-
Expenditures for fixed assets	(1,615,837)	(538,774)
Net cash used in investing activities	<u>(1,177,087)</u>	<u>(538,774)</u>
Cash flows from financing activities		
Proceeds from line of credit	-	231,145
Proceeds from long-term debt	-	90,000
Proceeds from development grant	-	90,000
Principal payments on long-term debt	(357,223)	(333,675)
Repurchase of common stock	-	(46,250)
Proceeds from exercise of stock options	-	23,150
Excess tax benefits of restricted stock and options	253,100	8,800
Net cash provided by (used in) financing activities	<u>(104,123)</u>	<u>63,170</u>
Net increase (decrease) in cash and cash equivalents	(1,260,230)	60,216
Cash and cash equivalents, beginning of period	<u>7,169,393</u>	<u>70,701</u>
Cash and cash equivalents, end of period	<u>\$ 5,909,163</u>	<u>\$ 130,917</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, 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 audited financial statements and related footnotes included in the Company’s annual report for the year ended October 31, 2008.

NOTE B – ADOPTION OF ACCOUNTING PRONOUNCEMENTS

In June 2006, the Financial Accounting Standards Board (FASB) issued FASB Interpretation No. 48, “Accounting for Uncertainty in Income Taxes,” (FIN 48). This Statement addresses uncertainty in tax positions recognized in a company’s financial statements and stipulates a recognition threshold and measurement of a tax position taken or expected to be taken in a tax return. Based on management’s assessment of relevant risks, facts, and circumstances existing at the time returns have been filed and taxes paid, the Company believes that its tax positions have been fairly stated.

In May 2009, the FASB issued FAS 165 “Subsequent Events.” FAS 165 establishes general standards of accounting for disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. Although there is new terminology, the standard is based on the same principles as those that currently exist in the auditing standards. The standard, which includes a new required disclosure of the date through which an entity has evaluated subsequent events, is effective for the Company beginning in its third quarter of fiscal 2009.

In June 2009, the FASB issued FAS 168 “The FASB Accounting Standards Codification™ and Hierarchy of Generally Accepted Accounting Principles.” The issuance of this Statement and Codification does not change generally accepted accounting principles. It is effective for interim and annual periods after September 15, 2009.

From time to time, new accounting pronouncements are issued by FASB that are adopted by the Company as of the specified effective date. Unless otherwise discussed, the Company believes that the impact of recently issued standards, which are not yet effective, will not have a material impact on the Company’s financial statements upon adoption.

NOTE C - INVENTORIES

Inventories consist of the following:

	April 30, 2009	October 31, 2008
Finished goods	\$ 3,641,721	\$ 2,484,833
Raw materials	1,575,302	775,644
Packaging material and supplies	460,423	353,749
	<u>\$ 5,677,446</u>	<u>\$ 3,614,226</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. 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 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. 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 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.

In January 2009, an existing equipment line was converted to a two year term note with interest at prime plus 1.00% (4.25% at April 30, 2009). The collateral for the term note is a security interest in certain technology equipment.

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, 2009. The line is subject to renewal by July 2010. There were no amounts drawn on this line at April 30, 2009.

The unsecured bank 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 April 30, 2009, the Company was in compliance with all of these ratios and covenants.

YOCREAM INTERNATIONAL, INC.

NOTES TO FINANCIAL STATEMENTS

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 \$25,000 and \$19,200, and the related tax effect was \$(9,600) and \$(7,400), at April 30, 2009 and October 31, 2008, respectively.

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 \$898,400, and \$480,400, and the related tax effects were \$(345,400) and \$(184,500) at April 30, 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, is recorded in earnings. There was no hedge ineffectiveness for the periods ended April 30, 2009, or October 31, 2008.

NOTE F – COMPREHENSIVE INCOME

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

	<u>2009</u>	<u>2008</u>
Net income	\$ 1,840,331	\$ 909,036
Change in fair value of derivative financial instruments, net of taxes (\$21,700) in 2009 and (\$19,200) in 2008	<u>33,900</u>	<u>30,800</u>
Comprehensive income	<u>\$ 1,874,231</u>	<u>\$ 939,836</u>

YOCREAM INTERNATIONAL, INC.
NOTES TO FINANCIAL STATEMENTS

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

	2009	2008
Net income	\$ 2,794,898	\$ 1,009,292
Change in fair value of derivative financial instruments, net of taxes \$162,700 in 2009 and \$111,300 in 2008	(261,100)	(178,500)
Comprehensive income	\$ 2,533,798	\$ 830,792

NOTE G – EARNINGS PER SHARE

Earnings per share are calculated as follows for the three months ended April 30, 2009 and 2008:

	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

	Three Months Ended April 30, 2008		
	Net Earnings (Numerator)	Shares (Denominator)	Per-Share Amount
Basic earnings per share:			
Net Income	\$ 909,036	2,174,606	\$ 0.42
Effect of dilutive securities		119,351	(0.02)
Diluted earnings per share	\$ 909,036	2,293,957	\$ 0.40

YOCREAM INTERNATIONAL, INC.
NOTES TO FINANCIAL STATEMENTS

Earnings per share are calculated as follows for the six months ended April 30, 2009 and 2008:

	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

	Six Months Ended April 30, 2008		
	Net Earnings (Numerator)	Shares (Denominator)	Per-Share Amount
Basic earnings per share:			
Net Income	\$ 1,009,292	2,176,995	\$ 0.46
Effect of dilutive securities		113,491	(0.02)
Diluted earnings per share	\$ 1,009,292	2,290,486	\$ 0.44

NOTE H – SUPPLEMENTAL CASH FLOW INFORMATION

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

	2009	2008
Cash paid during the period for income taxes	\$ 2,430,800	\$ 204,100
Cash paid during the period for interest	\$ 190,000	\$ 216,700
Fair value of interest rate swap, net of taxes	\$ (261,100)	\$ (178,500)
Deferred taxes related to interest rate swap	\$ 162,700	\$ 111,300
Accrual of vendor payables used to acquire capital assets	\$ 335,437	-

YOCREAM INTERNATIONAL, INC.
NOTES TO FINANCIAL STATEMENTS

NOTE I – STOCK INCENTIVE PLAN

The Company has a stock incentive that was approved by shareholders in April 2005. At October 31, 2008, 345,688 restricted shares awarded under the plan in 2005 and 2006 had not vested.

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

At April 30, 2009 and October 31, 2008 there were 15,000 shares of common stock available for issuance under the Company's stock incentive plan.

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 and will be recognized over the balance of the fiscal year. This expense is approximately \$1,092,000 more than the amount that otherwise would have been recognized during fiscal 2009. The modifications took into consideration both past performance and the expected results for the fiscal year.

NOTE J – OPERATING LEASE COMMITMENTS

In April 2009, the Company entered into a sale-leaseback arrangement. Under this arrangement, the Company sold certain manufacturing equipment for \$438,752 and leased it back under a synthetic lease arrangement for a period of 5 years. The lease has been accounted for as an operating lease.

NOTE K – OTHER COMMITMENTS

In conjunction with expanding its production capacity the Company plans to expend approximately \$3 million during the remainder of fiscal year 2009. These expenditures are expected to be funded from existing cash and cash equivalents and cash flow from operations.