



Third Quarter Report
Nine Months Ended July 31, 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 97220-1312

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.

2009 third fiscal quarter:

Period end date	July 31, 2009
Common Stock	
(i) Authorized	30,000,000
(ii) Issued and outstanding (1)	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	-

- (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 third quarter and nine months ended July 31, 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

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., 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 third quarter increased 5.3% to \$15,955,000 and represented the thirteenth consecutive quarter of growth. Sales for the nine months increased 25.6% to \$37,224,000 when compared to the same period last year.

Frozen dessert category sales for the nine months increased to \$30,804,000 versus \$21,255,000 a year ago. The 44.9% increase for the nine months has primarily resulted from the exceptional growth in the demand for the Company's core frozen yogurt products, and sales to a major national account that began in the second quarter of fiscal 2008. Third quarter frozen dessert sales reflected an increase of 16% over the prior year. This was a lower growth rate than earlier in fiscal 2009 primarily due to catching up with last year's roll out of product to a major national account. The Company continues to work with large national accounts, and four more are presently in test with different products.

The Company expects continued growth in frozen yogurt sales as the interest in this category remains strong and is intensifying nationwide as well as in other parts of the world. New frozen yogurt stores, both independent and chains, continue to open at an accelerated pace throughout the nation. Management believes that this is not a short term bubble of growth in the popularity of frozen yogurt. Consumer understanding of the health benefits of probiotics and the enjoyment of the yogurt experience has resulted

in a long term shift toward frozen yogurt with live and active cultures as a preferred frozen dessert. YoCream's Original Tart™ frozen yogurt culture counts far exceed the National Yogurt Association's (NYA) criteria for frozen yogurt and even meets the NYA's criteria for refrigerated cup yogurt. All of YoCream's frozen yogurt products carry the NYA's Live and Active Cultures seal.

The Company was recently awarded the Premier healthcare alliance sole source supplier contract for soft serve frozen yogurt, ice cream and custard. The Premier healthcare alliance represents more than 2,200 U.S. hospitals and 63,000-plus other healthcare sites, as well as a number of major universities. Management is proud that Premier has recognized YoCream's category leadership in quality and service with contract exclusivity.

Frozen beverage category sales for the nine months decreased to \$6,420,000 versus \$8,376,000 a year ago. The 23.4% decrease for the nine months and 25.6% decrease in the third quarter were primarily due to the Company not receiving the same number of flavor rotations for its frozen carbonated beverage (FCB) line for the last two quarters in existing customer promotion schedules. The Company introduced new FCB flavors and brands this spring, which are being shown for consideration in fiscal year 2010 schedules. In the second quarter one large frozen beverage customer chose to move to dual suppliers; however YoCream continues to enjoy a major part of the volume. The Company anticipates future growth in the frozen beverage category with the introduction of new products and access to new accounts.

To provide capacity to respond to expected additional surges in sales to large national accounts, the Company will complete approximately \$4 million in plant infrastructure capital expansion in fiscal year 2009. This effectively doubles the capacity to pasteurize, culture, and package frozen yogurt mix and enables the Company to produce in one shift what previously required two shifts. Management expects significant growth and accordingly has prepared to support the Company's core business and new customers.

Gross profit margins for the third quarter increased to 45.2% from 42.7%, and for the nine months increased to 46.2% from 41.9%, primarily as the result of economies of scale.

Distribution expenses for the third quarter decreased to 9.7% from 10.3%, and for the nine months decreased to 9.4% from 11.4%. The reduction in distribution expenses as a percent of sales in 2009 was achieved as a result of freight efficiencies and lower freight rates. Management expects increases in freight rates for the balance of the year.

Sales and marketing expenses for the third quarter increased to 6.4% from 6.2%, and for the nine months decreased to 7.0% from 7.4%. The increase as a percentage of sales in the third quarter was primarily due to personnel costs. Management believes that the opportunities merit additional sales personnel and intensified sales and marketing activities.

General and administrative expenses for the third quarter increased to 7.6% from 4.5%, and for the nine months increased to 7.7% from 5.9%. The increases primarily relate to personnel costs in response to the Company's growth.

Income from operations for the third quarter increased to \$3,433,000 from \$3,297,000 for the same period in 2008. As a percentage of sales for the quarter, income from operations was approximately the same for both periods at 21.5% in 2009 compared with 21.8% in 2008. Income from operations for the nine months increased to \$8,229,000 from \$5,100,000 for the same period in 2008. As a percentage of sales for the nine months, income from operations increased to 22.1% compared with 17.2% 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 for the third quarter increased to \$141,000 from \$123,000, and for the nine months decreased to \$374,000 from \$393,000 for the same period in 2008. Interest expense in the third quarter of 2009 was higher than for the same period of the prior year due to the industrial revenue bonds interest rate swap. In general, this is the result of the impact of the current financial environment on the historical relationship between the “fixed” swap rates based on the one month LIBOR rates, and the variable non-taxable bond rates.

Restricted stock compensation for the third quarter increased to \$671,700 from \$196,900, and for the nine months increased to \$952,200 from \$196,900 for the same period in 2008. The restricted stock compensation for the fiscal year will total \$1,623,900. Additional restricted stock compensation is not planned or anticipated at this time. In May the Board of Directors approved modifications in the 2005 and 2006 Restricted Share Awards that vested the remaining 281,938 shares. The modifications took into consideration both past performance and the expected results for the fiscal year. The restricted stock compensation expense related to the accelerated vesting is \$1,343,000, which is approximately \$1,092,000 more than the amount that otherwise would have been recognized during fiscal 2009.

The effective tax rate in the third quarter and nine months of 2009 was 35.0% compared with 35.4% and 35.0% for the same periods in 2008.

Net income for the third quarter of 2009 was \$1,707,000, or \$0.65 per share compared with \$1,924,000, or \$0.82 per share for the same period in 2008. Net income for the nine months of 2009 was \$4,502,000, or \$1.81 per share compared with \$2,934,000, or \$1.27 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 July 31, 2009 and October 31, 2008, cash and cash equivalents amounted to \$6,932,000 and \$7,169,000, respectively.

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 on an unsecured basis.

At July 31, 2009 and October 31, 2008, the Company had working capital of approximately \$11,528,000 and \$7,806,000, respectively.

In fiscal 2009, the Company expects to invest approximately \$4.6 million primarily in plant infrastructure capital expansion. Through July 31, approximately \$2,400,000 of such expenditures has been funded from internal cash flow. The Company may evaluate the option to arrange financing for a portion of these capital expenditures.

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

Not applicable

5. Legal proceedings

Not applicable

6. Defaults upon senior securities

Not applicable

7. Other information

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.

September 29, 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.

September 29, 2009

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

YOCREAM INTERNATIONAL, INC.

FINANCIAL STATEMENTS

YOCREAM INTERNATIONAL, INC

BALANCE SHEETS

	July 31, 2009 <u>(Unaudited)</u>	October 31, 2008 <u>(Audited)</u>
ASSETS		
Current assets		
Cash and cash equivalents	\$ 6,931,641	\$ 7,169,393
Accounts receivable, net	3,690,041	2,346,555
Inventories	5,582,082	3,614,226
Other current assets	556,336	346,722
Deferred tax assets	<u>218,877</u>	<u>218,877</u>
Total current assets	16,978,977	13,695,773
Fixed assets, net	16,533,044	14,297,886
Intangible and other long-term assets, net	1,058,721	1,108,290
Deferred tax assets	<u>291,600</u>	<u>191,900</u>
	<u>\$ 34,862,342</u>	<u>\$ 29,293,849</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Note payable – line of credit	\$ -	\$ -
Current portion of long-term debt	609,009	616,155
Accounts payable	2,817,770	2,661,073
Income tax payable	841,245	1,778,606
Other accrued liabilities	<u>1,182,873</u>	<u>833,459</u>
Total current liabilities	5,450,897	5,889,293
Long-term debt, less current portion	7,499,778	7,720,045
Deferred tax liabilities	1,514,477	1,344,077
Other liabilities	<u>138,042</u>	<u>119,376</u>
Total liabilities	<u>14,603,194</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, 2,607,898 and 2,262,210 issued and outstanding as of July 2009 and October 2008	7,363,165	6,618,865
Unearned compensation – restricted stock	(671,630)	(1,623,830)
Retained earnings	14,035,313	9,533,723
Accumulated other comprehensive income	<u>(467,700)</u>	<u>(307,700)</u>
Total shareholders' equity	<u>20,259,148</u>	<u>14,221,058</u>
	<u>\$ 34,862,342</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 July 31,		Nine Months Ended July 31,	
	2009	2008	2009	2008
Sales	\$ 15,955,206	\$ 15,152,365	\$ 37,223,816	\$ 29,630,827
Cost of goods sold	<u>8,750,096</u>	<u>8,682,087</u>	<u>20,018,074</u>	<u>17,215,339</u>
Gross profit	7,205,110	6,470,278	17,205,742	12,415,488
Operating costs and expenses				
Distribution expenses	1,541,357	1,555,880	3,492,268	3,371,380
Selling, and marketing expenses	1,018,234	936,965	2,620,456	2,184,003
General and administrative expenses	<u>1,212,140</u>	<u>680,099</u>	<u>2,863,607</u>	<u>1,759,979</u>
Income from operations	3,433,379	3,297,334	8,229,411	5,100,126
Other income (expenses)				
Interest income	5,217	2,088	21,971	3,382
Interest expense	(141,304)	(123,189)	(373,692)	(393,483)
Restricted stock compensation	<u>(671,700)</u>	<u>(196,900)</u>	<u>(952,200)</u>	<u>(196,900)</u>
Income before income taxes	2,625,592	2,979,333	6,925,490	4,513,125
Income tax provision	<u>(918,900)</u>	<u>(1,055,000)</u>	<u>(2,423,900)</u>	<u>(1,579,500)</u>
Net income	<u>\$ 1,706,692</u>	<u>\$ 1,924,333</u>	<u>\$ 4,501,590</u>	<u>\$ 2,933,625</u>
Earnings per common share – basic	<u>\$0.65</u>	<u>\$0.87</u>	<u>\$1.88</u>	<u>\$1.34</u>
Earnings per common share – diluted	<u>\$0.65</u>	<u>\$0.82</u>	<u>\$1.81</u>	<u>\$1.27</u>
Shares used in basic earnings per share	<u>2,607,898</u>	<u>2,214,445</u>	<u>2,391,842</u>	<u>2,187,886</u>
Shares used in diluted earnings per share	<u>2,607,898</u>	<u>2,345,829</u>	<u>2,479,668</u>	<u>2,307,341</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	-	-	-	4,501,590	-	4,501,590
Change in fair value of derivative financial instruments, net of income taxes of (\$99,700)	-	-	-	-	(160,000)	(160,000)
Comprehensive income						4,341,590
Restricted stock vested	345,688	-	952,200	-	-	952,200
Excess tax benefit of restricted stock vested	-	744,300	-	-	-	744,300
Balance, July 31, 2009	<u>2,607,898</u>	<u>\$ 7,363,165</u>	<u>\$ (671,630)</u>	<u>\$ 14,035,313</u>	<u>\$ (467,700)</u>	<u>\$ 20,259,148</u>

The accompanying notes are an integral part of these statements

YOCREAM INTERNATIONAL, INC.

STATEMENTS OF CASH FLOWS

For the nine months ended July 31, 2009 and 2008
(Unaudited)

	<u>2009</u>	<u>2008</u>
Cash flows from operating activities		
Net income	\$ 4,501,590	\$ 2,933,625
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	763,623	714,386
Deferred income taxes	170,400	-
Change in assets and liabilities		
Accounts receivable	(1,343,486)	(1,764,836)
Inventories	(1,967,856)	(160,078)
Other assets	(160,045)	(112,648)
Accounts payable	(412,515)	1,344,270
Income taxes payable	(937,361)	1,170,384
Restricted stock compensation	952,200	196,900
Other accrued liabilities	368,080	39,560
Net cash provided by operating activities	<u>1,934,630</u>	<u>4,361,563</u>
Cash flows from investing activities		
Proceeds from sale and leaseback of equipment	438,753	-
Expenditures for fixed assets	<u>(2,868,322)</u>	<u>(1,026,931)</u>
Net cash used in investing activities	<u>(2,429,569)</u>	<u>(1,026,931)</u>
Cash flows from financing activities		
Payments on line of credit	-	(634,475)
Proceeds from long-term debt	-	90,000
Proceeds from development grant	-	90,000
Principal payments on long-term debt	(487,113)	(444,229)
Repurchase of common stock	-	(46,250)
Proceeds from exercise of stock options	-	23,150
Excess tax benefits of restricted stock and options	744,300	117,900
Net cash provided by (used in) financing activities	<u>257,187</u>	<u>(803,904)</u>
Net increase (decrease) in cash and cash equivalents	(237,752)	2,530,728
Cash and cash equivalents, beginning of period	<u>7,169,393</u>	<u>70,701</u>
Cash and cash equivalents, end of period	<u>\$ 6,931,641</u>	<u>\$ 2,601,429</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 July 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 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. It requires the disclosure of the date through which an entity has evaluated subsequent events and whether that date represents the date the financial statements were issued. FAS 165 is effective for interim and annual periods ending after June 15, 2009 (See Note L).

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:

	July 31, 2009	October 31, 2008
Finished goods	\$ 3,730,372	\$ 2,484,833
Raw materials	1,403,081	775,644
Packaging material and supplies	448,629	353,749
	<u>\$ 5,582,082</u>	<u>\$ 3,614,226</u>

YOCREAM INTERNATIONAL, INC.
NOTES TO FINANCIAL STATEMENTS

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 that provide for monthly interest payments at a weekly floating rate. 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 (which has historically approximated the tax-exempt floating rate) plus the 7-day floating rate. At July 31, 2009 the overall effective rate was approximately 6.9%. 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 October 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 July 31, 2009). The collateral for the term note is a security interest in certain technology equipment.

The Company has an unsecured revolving 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 July 31, 2009. The line is subject to renewal by July 2010. There were no amounts drawn on this line at July 31, 2009.

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. In conjunction with the annual renewal of the Company's bank lines of credit, the provisions of this facility were modified to remove the borrowing limitations previously based on levels of eligible receivables and inventory.

The bank lines 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 July 31, 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 \$19,200 and \$19,200, and the related tax effect was \$(7,400) and \$(7,400), at July 31, 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 provided for a rate of 4.08% less 71% of the one month LIBOR rate, which has historically approximated the tax-exempt floating rate. This agreement will terminate on October 30, 2016. The mark-to-market adjustments were \$740,100, and \$480,400, and the related tax effects were \$(284,200) and \$(184,500) at July 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 agreements as a cash flow hedge and recognizes the fair value of its interest rate swap agreements 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.

NOTE F – COMPREHENSIVE INCOME

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

	<u>2009</u>	<u>2008</u>
Net income	\$ 1,706,692	\$ 1,924,333
Change in fair value of derivative financial instruments, net of taxes (\$63,000) in 2009 and (\$39,600) in 2008	<u>101,100</u>	<u>63,700</u>
Comprehensive income	<u>\$ 1,807,792</u>	<u>\$ 1,988,033</u>

YOCREAM INTERNATIONAL, INC.
NOTES TO FINANCIAL STATEMENTS

Comprehensive income for the nine-month periods ended July 31, are as follows:

	2009	2008
Net income	\$ 4,501,590	\$ 2,933,625
Change in fair value of derivative financial instruments, net of taxes \$99,700 in 2009 and \$71,700 in 2008	(160,000)	(114,800)
Comprehensive income	\$ 4,341,590	\$ 2,818,825

NOTE G – EARNINGS PER SHARE

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

	Three Months Ended July 31, 2009		
	Net Earnings (Numerator)	Shares (Denominator)	Per-Share Amount
Basic earnings per share:			
Net Income	\$ 1,706,692	2,607,898	\$ 0.65
Effect of dilutive securities	-	-	-
Diluted earnings per share	\$ 1,706,692	2,607,898	\$ 0.65

	Three Months Ended July 31, 2008		
	Net Earnings (Numerator)	Shares (Denominator)	Per-Share Amount
Basic earnings per share:			
Net Income	\$ 1,924,333	2,214,445	\$ 0.87
Effect of dilutive securities	-	131,384	(0.05)
Diluted earnings per share	\$ 1,924,333	2,345,829	\$ 0.82

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

	Nine Months Ended July 31, 2009		
	Net Earnings (Numerator)	Shares (Denominator)	Per-Share Amount
Basic earnings per share:			
Net Income	\$ 4,501,590	2,391,842	\$ 1.88
Effect of dilutive securities		87,826	(0.07)
Diluted earnings per share	\$ 4,501,590	2,479,668	\$ 1.81

	Nine Months Ended July 31, 2008		
	Net Earnings (Numerator)	Shares (Denominator)	Per-Share Amount
Basic earnings per share:			
Net Income	\$ 2,933,625	2,187,886	\$ 1.34
Effect of dilutive securities		119,455	(0.07)
Diluted earnings per share	\$ 2,933,625	2,307,341	\$ 1.27

NOTE H – SUPPLEMENTAL CASH FLOW INFORMATION

Supplemental cash flow information for the nine months ended July 31, are as follows:

	2009	2008
Cash paid during the period for income taxes	\$ 2,446,600	\$ 317,600
Cash paid during the period for interest	\$ 295,200	\$ 313,000
Fair value of interest rate swap, net of taxes	\$ (160,000)	\$ (114,800)
Deferred taxes related to interest rate swap	\$ 99,700	\$ 71,700
Accrual of vendor payables used to acquire capital assets	\$ 569,212	-

YOCREAM INTERNATIONAL, INC.
NOTES TO FINANCIAL STATEMENTS

NOTE I – STOCK INCENTIVE PLAN

The Company has a stock incentive plan 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.

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.

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

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 \$2,200,000 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. However, the Company may evaluate the option of financing a portion of the 2009 expenditures.

NOTE L – SUBSEQUENT EVENTS

The Company has performed an evaluation of subsequent events through September 29, 2009, the date that the Company issued these financial statements. Based on management's evaluation, no material events have occurred requiring disclosure.