



IMPROVING QUALITY WITH SCIENCE

*Food Technology Service, Inc.
2009 Annual Report
To
Stockholders*



The Symbol of
Quality and
Wholesomeness



IMPROVING QUALITY WITH SCIENCE

502 Prairie Mine Rd., Mulberry FL 33860 • Office 863.425.0039 • Fax 863.425.5526

April 5, 2010

Dear Stockholder:

Food Technology Service, Inc. revenue increased from \$2,507,078 in 2008 to \$2,515,978 in 2009. This slight increase occurred despite the loss of a large customer early in the year. In March, 2009 a customer responsible for 25% of our revenue was purchased and moved to Texas. Although we received normal revenue from that customer during the first quarter and a lease settlement during the second quarter, the move decreased our revenue from that customer in 2009 by \$386,000 compared to 2008. We have worked to replace the revenue lost by the move of this customer and the fact that annual and fourth quarter revenues were nearly identical between 2009 and 2008 is an indication of our success. There is still work to do to return to the rapid growth we experienced in 2007 and 2008.

The Company had income before taxes of \$559,368 in 2009 compared to \$505,387 in 2008, an increase of approximately 10.7 per cent. Income per share before taxes was \$0.206 for 2009 compared to \$0.183 for 2008. I emphasize the income before taxes because the Company periodically evaluates the value of tax-loss carry-forward credits on its financial statements. This is required by Generally Accepted Accounting Principles but makes a comparison of net income between years difficult. In 2008, the Company increased the value of the tax-loss carry-forward credits which increased net income in 2008 and stockholders equity at December 31, 2008 by \$525,000. Based on increased profitability in 2009 and potential future profitability, the Company again increased the value of the tax-loss carry-forward credits which increased net income in 2009 and stockholders equity at December 31, 2009 by \$139,000. Due to the tax credit, the Company had net income of \$698,358 or \$0.253 per share in 2009 compared to net income of \$1,030,387 or \$0.374 per share in 2008.

Demand for medical device sterilization remains strong and interest in food irradiation is high. We continue to generate over \$1,000,000 per year in cash flow. In December, 2009 we made the final payment on debt owed to Nordion representing nearly \$630,000 in debt retired during the year. This negates all stock conversion rights Nordion held on that debt and the Company has no debt. In addition, the Company had \$610,000 cash on hand at the end of 2009.

My focus during 2010 is to continue to increase revenue and profits. Because of the loss of the large customer it was not necessary to add Cobalt during 2009. I expect we will need to purchase Cobalt to further increase our production capacity during 2010.

Like you, I am a stockholder and committed to the future of Food Technology Service, Inc. I truly appreciate your interest in our Company and look forward to further success in 2010.

Sincerely,

Richard G. Hunter, Ph.D.
President and CEO

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D. C. 20549

FORM 10-K
[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

For the year ended December 31, 2009

Commission File No. 0-19047

FOOD TECHNOLOGY SERVICE, INC.

(Exact name of Registrant as specified in its charter)

FLORIDA 59-2618503
(State of Incorporation or Organization) (Employer Identification Number)

502 Prairie Mine Road, Mulberry, FL 33860
(Address of Principal Executive Offices) (Zip Code)

Registrant's telephone number, including area code: (863)425-0039
Securities registered pursuant to Section 12(b) of the Act: None
Securities registered pursuant to Section 12(g) of the Act: Common Stock, \$.01 par value

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act: Yes [] No [X]

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act: Yes [] No [X]

Indicate by check mark whether the Registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No
X —

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and no disclosure will be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. []

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definition of "accelerated filer", "large accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large Accelerated Filer [] Accelerated Filer []
Non-Accelerated Filer [X] Smaller Reporting Company []

The Registrant's operating revenues for its most recent fiscal year were \$2,515,978.

As of February 26, 2010, 2,756,458 shares of the Registrant's Common Stock were outstanding, and the aggregate market value of the voting stock held by non-affiliates (2,112,049 shares) was approximately \$3,801,688 based on the market price at that date.

DOCUMENTS INCORPORATED BY REFERENCE

Proxy Statement for the Annual Meeting of Shareholders scheduled to be held May 21, 2010.

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PART I

Item 1. Description of Business

Food Technology Service, Inc., (the "Company") was organized as a Florida corporation on December 11, 1985. The Company owns and operates an irradiation facility located in Mulberry, Florida that uses gamma radiation to provide contract sterilization services to the medical device, food and consumer goods industries. The Company also irradiates packaging, spices and ingredients. The Company's revenue for 2009 (\$2,515,978) resulted primarily from the processing of medical items and food. The Company continues to diversify its customer base, however three customers accounted for approximately 62% of revenues in 2009.

During the past few years, the Company has aggressively pursued sterilization of medical devices to increase its customer base. Medical device manufacturing is expanding rapidly due to improvements in medical technology and an aging population structure in the U.S. The Company is certified to International Organization for Standardization (ISO) standards for radiation sterilization of medical devices, which is especially important for potential customers exporting medical products to the EU and Canada. Medical device sterilization represented approximately 72% of revenues in 2009. The State of Florida is now the second leading state in the U.S. for FDA registered medical device companies.

Food irradiation is a proven technology that can prevent food-borne illness or prevent the spread of insect pests. The process is supported by the U.S. Department of Agriculture, the U.S. Food and Drug Administration, the World Health Organization, the American Medical Association, the American Dietetic Association and other governmental and scientific organizations. Food irradiation is a developing segment of the irradiation industry and the Company is well-positioned to take advantage of future growth in this area. Food irradiation was responsible for approximately 16% of revenues in 2009.

Although the Company focuses on medical sterilization and food irradiation, the Company has and will continue to take advantage of profitable opportunities to irradiate other products. In particular, the Company irradiates packaging, cosmetic ingredients, horticultural items and consumer goods. Such items accounted for approximately 12% of 2009 revenues.

Processing Plant Operations

Procedures

Products to be irradiated are placed in a conveying system that moves the items past a Cobalt 60 source at a rate that is dependent on the required dose. The dose is also related to the density of the product and the strength of the Cobalt 60 source. The actual dose received by a product is verified through dosimeters placed on the product. The Company produces a detailed record of the irradiation process for each product and maintains an extensive quality assurance program. The process cannot make products radioactive just as a dental x-ray does not make the patient's teeth radioactive.

Personnel

As of December 31, 2009, the Company had thirteen employees.

Cobalt 60 Supply

The level of radioactive energy of Cobalt 60 declines at approximately 1% per month, and new Cobalt 60 must be purchased at intervals to accommodate this decrease in energy as well as customer growth. MDS Nordion is the Company's supplier of Cobalt 60 and has agreed to accept the return of all Cobalt 60 that has reached the end of its useful life. Cobalt 60 is available from one other source. See "Agreements with MDS Nordion" below.

Plant Safety and Regulatory Matters

Although a radiation source does require special handling, the necessary precautions are implemented in regulations and practiced daily at the Company and numerous other irradiation plants worldwide. The Company's irradiation processing activities do not produce harmful solid, liquid or gas effluents or pollutants. As a result of long experience in designing and operating similar types of irradiation facilities, the necessary precautions for worker safety

in an irradiation facility are well regulated by the U.S. Nuclear Regulatory Commission through the Florida Department of Health. The Florida Department of Health licenses the facility and inspects it on a regular basis. The facility is also inspected by the U.S. Department of Agriculture, the U.S. Food and Drug Administration and the Florida Department of Agriculture and Consumer Services. The notified body for certification to ISO standards also audits the facility regularly.

Agreements with MDS Nordion

The Company, in September 1990, entered into an agreement with MDS Nordion whereby MDS Nordion agreed to sell irradiation equipment and Cobalt 60 to the Company to operate its irradiation facility. To secure payment of the purchase price, the Company and MDS Nordion executed a Convertible Debenture and Security Agreement both dated January 15, 1992.

On October 22, 1991 the Company entered into a Reimbursement and Indemnity Agreement with MDS Nordion whereby MDS Nordion assisted the Company in obtaining a surety bond in the sum of \$600,000 in order to meet State of Florida facility permit bonding requirements. In connection therewith, the Company agreed to reimburse MDS Nordion for any liability and expense which MDS Nordion may sustain as a result of its commitments to the bond issuer and secured such obligation under a Mortgage and Security Agreement dated October 22, 1991. The bond continues to be in effect.

By agreements dated March 6, 2001, April 17, 2001, May 18, 2001 and November 20, 2001, the Company and MDS Nordion agreed and further confirmed that the Debt and any future advances, including payment of guarantees or indemnities to third parties made by MDS Nordion for the Company's benefit, shall be convertible at MDS Nordion's option, at any time, into Common Stock of the Company. The applicable conversion rate is determined based on 70% of the closing price of the Company's shares of Common Stock listed on NASDAQ, on the last trade date prior to the exercise of the conversion right. MDS Nordion has waived its rights to convert interest accruing on the indebtedness through January 1, 2010. All debt incurred under agreements with MDS Nordion was paid in full on December 9, 2009.

In addition to Cobalt 60 purchased from MDS Nordion, MDS Nordion has stored an additional amount of Cobalt 60 at the Company's facility in anticipation of the Company's future needs. At the end of 2009, there were approximately 1.0 million curies of Cobalt 60 both owned and stored at the Company's facility. Title in and to 116,295 curies of Cobalt 60 located at the facility remains the property of MDS Nordion and may be removed by MDS Nordion at any time.

Item 2. Description of Properties

The Company's irradiation facility and executive office are located on an approximately 2.17 acre site owned by the Company in Mulberry, Polk County, Florida. The Company purchased the site because of its convenient access to State Road 60, a major transportation artery between Central Florida near the major interstate systems. The Company's irradiation facility and executive office comprise approximately 28,800 square feet, including a 22,600 square foot warehouse and loading and unloading area, a 3,200 square foot office area, and a 3,000 square foot irradiation chamber and Cobalt 60 storage cell. The Company's facility is designed to operate 24 hours per day, seven days per week. As of December 31, 2009, the Company had in use approximately 1.0 million curies of Cobalt 60. The facility is licensed for a maximum of 4,500,000 curies of Cobalt 60 which allows production to be increased significantly, if needed.

The Company has an approximately 8,000 square foot warehouse on 2.17 acres of Company-owned land adjacent to the processing facility.

Item 3. Legal Proceedings

None

Item 4. Submission of Matters to a Vote of Security Holders

None

PART II

Item 5. Market for Registrant's Common Equity and Related Stockholder Matters

- (a) The following table shows the range of closing bid prices for the Company's Common Stock in the NASDAQ Small Cap market for the calendar quarters indicated. The quotations represent prices in the over-the-counter market between dealers in securities, do not include retail mark-up, markdown, or commissions and do not necessarily represent actual transactions.

BID PRICES

<u>2008</u>	<u>High</u>	<u>Low</u>
First Quarter	\$2.85	\$1.82
Second Quarter	2.58	1.62
Third Quarter	3.08	1.22
Fourth Quarter	1.32	.80
<u>2009</u>	<u>High</u>	<u>Low</u>
First Quarter	\$2.43	\$.90
Second Quarter	3.00	1.51
Third Quarter	2.50	1.62
Fourth Quarter	2.08	1.60

- (b) As of December 31, 2009 the approximate number of beneficial holders of Common Stock of the Company was 3,500.
- (c) The Company has paid no dividends to date and does not anticipate paying any for the foreseeable future.

Item 6. Selected Financial Data

Not applicable.

Item 7. Management's Discussion and Analysis

Plan of Operations

Food Technology Service, Inc. had revenue of \$2,515,978 in 2009 which is comparable to the \$2,507,078 realized in 2008. The Company periodically evaluates the value of tax-loss carry-forward credits on its financial statements as required by Generally Accepted Accounting Principles. In 2008, the Company increased the value of the tax-loss carry-forward credits which increased net income in 2008 and stockholders equity at December 31, 2008 by \$525,000. Based on increased profitability in 2009 and potential future profitability, the Company again increased the value of the tax-loss carry-forward credits which increased net income in 2009 and stockholders equity at December 31, 2009 by \$139,000. To facilitate comparison to prior year operations, the Company had income before taxes of \$559,358 in 2009 compared to \$505,387 in 2008, an increase of approximately 10.7 percent. Income per share before taxes was \$0.203 for 2009 compared to \$0.183 for 2008. Due to the tax credit, the Company had net income of \$698,358 or \$0.253 per share in 2009 compared to net income of \$1,030,387 or \$0.374 per share in 2008.

Revenue for the fourth quarter of 2009 was \$640,039 compared to \$641,731 during the same period in 2008.

Management attributes a lack of revenue growth in 2009 to the loss of a large customer during the first quarter. The customer, which accounted for approximately 25% of revenues in 2008 was purchased and moved to Texas. In addition to revenues generated by that customer during the first quarter of 2009, revenue of \$85,229 in lease termination fees was recognized from that customer during the second quarter. The fact that annual and fourth quarter revenues were nearly identical between 2009 and 2008 is an indication that the Company has replaced much of the lost business.

During 2009, processing costs as a percentage of revenue were 21.4 percent compared to 22.6 percent in 2008. This decrease was not significant and reflects the fact that such costs are relatively fixed. General administrative and development costs as a percentage of revenue during 2009 were 40.2 percent compared to 39.3 percent in 2008. Again, this change is not significant and reflects the relatively fixed nature of these costs.

In order to comply with FASB ASC 718, the Company continues to report the value of stock-options granted as an item of expense. These options have been issued to Company employees and Board members and are valued using the Black-Scholes pricing method. This action increased expenses in 2009 by \$39,383.

Although there is no assurance, management anticipates continued profitability during 2010. Management does not anticipate any significant increase in processing costs or general and administrative expenses as a percentage of revenue during 2010.

Liquidity and Capital Resources

All debt incurred under agreements with MDS Nordion was paid in full on December 9, 2009.

At December 31, 2009, the Company had cash on hand of approximately \$610,311.

Item 8. Financial Statements and Supplementary Data

Reference is made to the Company's Financial Statements included herewith.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

Item 9A(T) Controls and Procedures

As of the end of the period covered by this report, an evaluation was performed on the effectiveness of the design and operation of our disclosure controls and procedures under the supervision and with the participation of our management, including our Chief Executive Officer who also acts as the Company's Chief Financial Officer. Based upon that evaluation, our Chief Executive and Chief Financial Officer concluded that the design and operation of our disclosure controls and procedures were effective as of the end of the period covered by this report.

The management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Securities Exchange Act Rules 13a-15(f) and 15d-15(f)). The Company's internal control system was designed to provide reasonable assurance to the Company's management and board of directors regarding the preparation and fair presentation of published financial statements. All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

This annual report does not include an attestation report of the Company's registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by the Company's registered public accounting firm pursuant to temporary rules of the Securities and Exchange Commission that permit the Company to provide only management's report in this annual report.

The Company's management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2009. In making this assessment, it used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") in Internal Control - Integrated Framework. Based on this assessment, management believes that, as of December 31, 2009, the Company's internal control over financial reporting is effective.

There have been no changes in the Company's internal control over financial reporting that occurred during the Company's last fiscal quarter that materially affected, or are reasonably likely to materially affect the Company's internal control over financial reporting.

PART III

Item 10. Directors, Executive Officers, and Corporate Governance

Reference is made to the Company's Proxy Statement to be used in conjunction with the 2010 Annual Shareholders Meeting scheduled to be held on May 21, 2010.

Item 11. Executive Compensation

Reference is made to the Company's Proxy Statement to be used in conjunction with the 2010 Annual Shareholders Meeting scheduled to be held on May 21, 2010.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

Reference is made to the Company's Proxy Statement to be used in conjunction with the 2010 Annual Shareholders Meeting scheduled to be held on May 21, 2010.

Item 13. Certain Relationships and Related Transactions and Director Independence

See Item 1 Business - "Agreements with MDS Nordion."

Item 14. Principle Accounting Fees and Services

Reference is made to the Company's Proxy Statement to be used in conjunction with the 2010 Annual Shareholders Meeting scheduled to be held on May 21, 2010.

Item 15. Exhibits

- (1) Articles of Incorporation. Reference is made to Exhibit 3.1 included in the Company's Registration Statement on Form S-18 (File No. 33-36838-A).
- (2) By-Laws. Reference is made to Exhibit 3.2 included in the Company's Registration Statement on Form S-18 (File No. 33-36838-A).
- (10) Agreements entered into by the Company with MDS Nordion
 - *(a) Reimbursement and Indemnity Agreement dated October 22, 1991
 - *(b) Agreement dated December 11, 1991
 - *(c) Debenture dated January 15, 1992
 - *(d) Copy of Security & Mortgage Agreement dated January 15, 1992
 - *(e) Financing Agreement dated February 21, 1992
 - *(f) Security Agreement dated February 21, 1992
 - ** (g) Letter Agreement dated March 31, 1994 and April 13, 1994
 - *** (h) Modification Agreement
 - **** (14) Code of Ethics
 - ***** (23.1) Information Concerning Consent of Faircloth & Associates Inc.
 - ***** (31) Rule 13a-14(a)/15d-14(a) Certifications
 - ***** (32) Section 1350 Certification

* Reference is made to Exhibit (c)(3) included in the Company's Form 10-KSB Report filed for the year ended December 31, 1991.

** Reference is made to Exhibit 10(g) included in the Company's Form 10-KSB Report filed for the year ended December 31, 1994.

*** Reference is made to Exhibit 10(h) included in the Company's Form 10-KSB Report filed for the year ended December 31, 2000.

**** Reference is made to Exhibit 14 included in the Company's Form 10-KSB Report filed for the year ended December 31, 2003.

***** Filed herewith.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized as of the 30th of March 2010.

FOOD TECHNOLOGY SERVICE, INC.

By: /S/ Richard G. Hunter, Ph.D.
Richard G. Hunter, Ph.D.
Chief Executive Officer and
Chief Financial Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Company and in the capacities and on the dates indicated:

<u>Name</u>	<u>Title</u>	<u>Date</u>
<u>/S/ Richard G. Hunter, Ph.D.</u> Richard G. Hunter, Ph.D.	Director Chief Executive Officer and Chief Financial Officer	March 30, 2010
<u>/S/ Samuel Bell</u> Samuel Bell	Director	March 30, 2010
<u>/S/ John Corley</u> John Corley	Director	March 30, 2010
<u>/S/ Gary Lifshin</u> Gary Lifshin	Director	March 30, 2010
<u>/S/ David Nicholds</u> David Nicholds	Director	March 30, 2010
<u>/S/ John T. Sinnott</u> John T. Sinnott, M.D., F.A.C.P	Director	March 30, 2010
<u>/S/ Ronald Thomas</u> Ronald Thomas, Ph.D.	Director	March 30, 2010

FOOD TECHNOLOGY SERVICE, INC.

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Report of Independent Registered Public Accounting Firm
(Faircloth & Associates, P.A.)

Report of Independent Registered Public Accounting Firm
(Ferlita, Walsh & Gonzalez, P.A.)

Financial Statements

Balance Sheet - December 31, 2009 and 2008

Statement of Operations - Years Ended December 31, 2009 and 2008

Statement of Stockholders' Equity - Years Ended December 31, 2009 and 2008

Statement of Cash Flows - Years Ended December 31, 2009 and 2008

Notes to Financial Statements

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors
and Stockholders
Food Technology Service, Inc.

We have audited the accompanying balance sheet of Food Technology Service, Inc. as of December 31, 2008 and 2007 and the related statements of operations, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2008. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Food Technology Service, Inc. as of December 31, 2008 and 2007 and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2008, in conformity with U.S. generally accepted accounting principles.

FAIRCLOTH & ASSOCIATES, P.A.

Tampa, Florida
February 10, 2009

THIS IS A COPY OF THE AUDIT REPORT PREVIOUSLY ISSUED BY FAIRCLOTH & ASSOCIATES, INC. IN CONNECTION WITH FOOD TECHNOLOGY SERVICE, INC.'S FILING ON FORM 10-K FOR THE YEAR ENDED DECEMBER 31, 2008. THIS AUDIT REPORT HAS NOT BEEN REISSUED BY FAIRCLOTH & ASSOCIATES, INC. IN CONNECTION WITH THIS FILING ON FORM 10-K. SEE EXHIBIT 23.1 FOR FURTHER DISCUSSION.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors
Food Technology Service, Inc.
Mulberry, Florida

We have audited the accompanying consolidated balance sheet of Food Technology Service, Inc. as of December 31, 2009 and the related statement of income, stockholders' equity, and cash flows for the year ended December 31, 2009. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of Food Technology Service, Inc. as of December 31, 2008, were audited by other auditors whose report dated February 10, 2009, expressed an unqualified opinion on those statements.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States of America). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the company's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Food Technology Service, Inc. as of December 31, 2009 and the results of its operations and its cash flows for the year ended December 31, 2009, in conformity with accounting principles generally accepted in the United States of America.

FERLITA, WALSH & GONZALEZ, P.A.
Certified Public Accountants
Tampa, Florida

March 12, 2010

**FOOD TECHNOLOGY SERVICE, INC.
BALANCE SHEETS**

	December 31,	
	2009	2008
<u>ASSETS</u>		
Current Assets:		
Cash	\$ 610,311	\$ 216,978
Accounts Receivable, Less Allowance for Doubtful Accounts of \$2,500	213,752	268,305
Prepaid Expenses	31,807	33,329
Deferred Tax Asset	186,000	184,000
Total Current Assets	1,041,870	702,612
Property, Plant and Equipment:		
Buildings	3,282,029	3,282,029
Cobalt	4,404,543	4,404,543
Furniture and Equipment	1,923,743	1,899,887
Less: Accumulated Depreciation	(6,005,524)	(5,619,783)
	3,604,791	3,966,676
Land	171,654	171,654
Total Property, Plant and Equipment	3,776,445	4,138,330
Other Assets:		
Deferred Tax Asset	1,128,000	991,000
Utility Deposits	5,000	5,000
Total Other Assets	1,133,000	996,000
Total Assets	\$ 5,951,315	\$ 5,836,942

SEE NOTES TO FINANCIAL STATEMENTS

**FOOD TECHNOLOGY SERVICE, INC.
BALANCE SHEETS**

	December 31, <u>2009</u>	<u>2008</u>
<u>LIABILITIES AND STOCKHOLDERS' EQUITY</u>		
Current Liabilities:		
Accounts Payable and Accrued Liabilities	\$ 36,556	\$ 31,295
Financing Agreement Payable	<u>-</u>	<u>628,629</u>
Total Current Liabilities	<u>36,556</u>	<u>659,924</u>
Stockholders' Equity:		
Common Stock \$.01 Par Value, Authorized 5,000,000 Shares, Issued 2,756,458	27,564	27,564
Paid-In Capital	12,186,827	12,147,444
Deficit	<u>(6,281,141)</u>	<u>(6,979,499)</u>
	5,933,250	5,195,509
Less, 5,154 Treasury Shares at Cost	<u>(18,491)</u>	<u>(18,491)</u>
Total Stockholders' Equity	<u>5,914,759</u>	<u>5,177,018</u>
Commitments and Contingencies (Note I)		
	--	--
Total Liabilities and Stockholders' Equity	<u>\$ 5,951,315</u>	<u>\$ 5,836,942</u>

SEE NOTES TO FINANCIAL STATEMENTS

FOOD TECHNOLOGY SERVICE, INC.
STATEMENT OF OPERATIONS

	Year Ended December 31,	
	<u>2009</u>	<u>2008</u>
Net Revenues	\$ 2,515,978	\$ 2,507,078
Processing Costs	538,293	567,734
Selling, General and Administrative	1,011,610	986,425
Depreciation	385,741	383,182
Interest Expense	<u>20,976</u>	<u>64,350</u>
	1,956,620	2,001,691
Income before Income Taxes	559,358	505,387
Income Taxes		
Current	210,500	204,000
Deferred Income Tax (Benefit)	<u>(139,000)</u>	<u>(525,000)</u>
Total	71,500	(321,000)
Income before Benefit of Tax Loss Carryovers	487,858	826,387
Benefit of Tax Loss Carryovers	<u>210,500</u>	<u>204,000</u>
Net Income	<u>\$ 698,358</u>	<u>\$ 1,030,387</u>
Net Income Per Common Share		
-Basic	\$ 0.253	\$ 0.374
-Diluted	\$ 0.248	\$ 0.366
Weighted average number of common shares used in computation		
-Basic	2,756,458	2,756,458
-Diluted	2,816,458	2,816,458

SEE NOTES TO FINANCIAL STATEMENTS

**FOOD TECHNOLOGY SERVICE, INC.
STATEMENT OF STOCKHOLDERS' EQUITY**

	<u>Common Stock</u>	<u>Paid-In Capital</u>	<u>Deficit</u>	<u>Treasury Stock</u>
Balance, December 31, 2007	27,564	12,114,350	(8,009,886)	18,491
Stock Option Expense		33,094		
Net Income for Year	_____	_____	<u>1,030,387</u>	_____
Balance, December 31, 2008	27,564	12,147,444	(6,979,499)	18,491
Stock Option Expense		39,383		
Net Income for Year	_____	_____	<u>698,358</u>	_____
Balance, December 31, 2009	<u>\$ 27,564</u>	<u>\$ 12,186,827</u>	<u>\$ (6,281,141)</u>	<u>\$ (18,491)</u>

SEE NOTES TO FINANCIAL STATEMENTS

FOOD TECHNOLOGY SERVICE, INC.
STATEMENT OF CASH FLOWS

	Year Ended December 31,	
	<u>2009</u>	<u>2008</u>
Cash Flows from Operations:		
Cash Received from Customers	\$ 2,570,531	\$ 2,575,521
Interest Received	5,233	-
Cash Paid for Interest	(20,976)	(13,448)
Cash Paid for Operating Expenses	<u>(1,508,970)</u>	<u>(1,552,831)</u>
Net Cash Provided/(Used) by Operations	1,045,818	1,009,242
Cash Flows from Investing Activities:		
Purchase of Equipment and Cobalt	<u>(23,856)</u>	<u>(604,313)</u>
Net Cash Provided/(Used) by Investing	(23,856)	(604,313)
Cash Flows from Financing Activities:		
Repayment on Financing Agreement	<u>(628,629)</u>	<u>(445,237)</u>
Net Cash Provided/(Used) by Financing	(628,629)	(445,237)
Net Increase (Decrease) in Cash	393,333	(40,308)
Cash at Beginning of Year	<u>216,978</u>	<u>257,286</u>
Cash at End of Year	<u>\$ 610,311</u>	<u>\$ 216,978</u>
Reconciliation of Net Income (Loss) to		
Net Cash Provided/(Used) by Operations:		
Net Income/(Loss)	\$ 698,358	\$ 1,030,387
Adjustments to Reconcile		
Net Income/(Loss) to Cash Provided or Used:		
Loan Cost Amortization	5,774	9,668
Deferred Income Taxes	(139,000)	(525,000)
Depreciation	385,741	383,182
Non Cash Payments of Interest and Salaries	39,384	83,995
(Increase)/Decrease in Receivables	54,553	69,109
(Increase)/Decrease in Prepaid Expenses	(4,254)	(5,060)
Increase/(Decrease) in Payables and Accruals	<u>5,262</u>	<u>(37,039)</u>
Net Cash Provided/(Used) by Operations	<u>\$ 1,045,818</u>	<u>\$ 1,009,242</u>

Supplemental schedule of non-cash investing and financing activities.

The Company converted \$50,903 of interest expense to debt in 2008.

SEE NOTES TO FINANCIAL STATEMENTS

FOOD TECHNOLOGY SERVICE, INC.

NOTES TO FINANCIAL STATEMENTS
December 31, 2009

Note A - Summary of Significant Accounting Policies:

A summary of the Company's significant accounting policies consistently applied in the preparation of the accompanying financial statements follows:

1. Nature of Business

The Company was organized in December 1985 and is engaged in the business of operating a gamma irradiation facility using Cobalt 60 for the sterilization of medical, surgical, pharmaceutical and packaging materials. It also disinfects fruits, vegetables and meat products which extends their shelf life.

2. Use of Estimates

Management uses estimates and assumptions in preparing financial statements in accordance with generally accepted accounting principles. These estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could vary from the estimates that were assumed in preparing the financial statements.

3. Revenue Recognition

The primary source of revenue is from treating products with Cobalt. Net Revenue is the gross income from such processing less allowances, if any. Revenues are recorded after the Company's performance obligation is completed and product has been processed in accordance with the customer's specifications and collection of the resulting receivable is probable. A provision is made for doubtful accounts which historically have not been significant.

4. Property, Plant and Equipment

Property, plant and equipment are stated at cost. Assets other than Cobalt have been depreciated using the straight-line method over the following lives for both financial statement and tax purposes:

Building	31.5 Years
Furniture and Equipment	5-15 Years

The total cost basis of Cobalt has been depreciated using engineering estimates from published tables under which one-half of the remaining value is written off over 5.26 year periods.

Estimated useful lives are periodically reviewed and if warranted, changes will be made resulting in acceleration of depreciation.

MDS Nordion is the Company's supplier of Cobalt 60 and has agreed to accept the return of all Cobalt 60 that has reached the end of its useful life; therefore, the Company has no environmental remediation liability for the disposal of the Cobalt 60.

5. Cash and Cash Equivalents

All highly liquid investments with original maturities of three months or less are considered to be cash and cash equivalents.

FOOD TECHNOLOGY SERVICE, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2009

Note A - Summary of Significant Accounting Policies (continued)

6. Concentration of Credit Risk

The Company maintains its cash in three financial institutions. The Federal Deposit Insurance Corporation insures up to \$250,000 per legal entity per financial institution and fully insures noninterest-bearing transaction accounts until June 30, 2010. At December 31, 2009, the uninsured cash balance was \$0.

7. Net Income Per Share

Basic net income per share is computed using the weighted average number of common shares outstanding. Diluted net income per share is computed by the weighted average number of common shares outstanding, plus the effect of common stock equivalents that are dilutive.

8. Comprehensive Income

The only component of comprehensive income the Company has is net income.

9. Fair Value of Financial Instruments

The carrying value of cash, accounts receivable, prepaid expenses, deposits, accounts payable, accrued liabilities approximate fair value.

Considerable judgment is required in interpreting market data to develop the estimates of fair value, and accordingly, the estimates are not necessarily exchange.

10. Stock Option Plans

The Company has various stock option plans for employees and other individuals providing services to or serving as Directors of the Company. (See Note E)

Compensation cost under the plans is recognized using the fair value recognition provisions of FASB ASC 718. Such cost is recognized for shares expected to vest on a straight-line basis over the requisite service period of the award using the Black-Scholes option-pricing model.

11. Reclassification

Certain reclassifications have been made to the prior year's financial statements to conform to the current year's presentation.

FOOD TECHNOLOGY SERVICE, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2009

Note B - Financing Agreement

As of December 31, 2008 the Company owed MDS Nordion \$628,629. On December 9, 2009 the debt was paid in full. The debt bears interest at prime plus 1%. The total interest paid on the debt for 2009 was \$20,976.

Note C - Lines of Credit

The Company has a letter of credit of \$600,000 through MDS Nordion to satisfy the requirements under the Radioactive Materials License from the State of Florida. The letter of credit is guaranteed by MDS Nordion and is collateralized by the Company's warehouse facility. The Company agreed to reimburse MDS Nordion for the associated expenses relating to the letter of credit. The letter of credit bears interest at prime plus 1%. As of December 31, 2009 the letter of credit is still active with a \$0 balance.

The Company has a separate line of credit available for the short term capital needs of the Company with Magnify Credit Union for \$300,000. The line of credit is secured by the Company's warehouse and bears interest at the WSJ prime plus 1%. As of December, 31 2009 the Company has not used the line of credit.

Note D - Income Taxes

The Company has unused operating loss carry forwards available at December 31, 2009 of \$4,931,966 for tax purposes. The loss carry forwards expire as follows:

<u>Year</u>	<u>Amount</u>
2010	\$ 1,262,386
2011	1,048,800
2012	688,497
2018	647,341
2019	840,410
2020	86,215
2022	256,356
2024	101,961
	<u>\$ 4,931,966</u>

During 2009 \$563,789 of loss carry forwards were used and \$675,801 expired.

The components of the provision for income taxes (benefits) are attribution to continuing operations as follows:

FOOD TECHNOLOGY SERVICE, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2009

Note D - Income Taxes (continued)

	<u>2009</u>	<u>2008</u>
Current		
Federal	\$ 190,200	\$ 183,600
State	<u>20,300</u>	<u>20,400</u>
	<u>\$ 210,500</u>	<u>\$ 204,000</u>
Deferred		
Federal	(131,355)	(496,125)
State	<u>(7,645)</u>	<u>(28,875)</u>
	<u>\$ (139,000)</u>	<u>\$ (525,000)</u>
Benefit of Tax Loss Carryovers	<u>\$ (210,500)</u>	<u>\$ (204,000)</u>

Deferred income taxes reflect the estimated tax effect of temporary differences between assets and liabilities for financial reporting purposes and those amounts as measured by tax laws and net operating losses. The components of deferred income tax assets and liabilities at December 31, 2009 and 2008 were as follows:

	<u>2009</u>	<u>2008</u>
Current Net operating loss	\$ 495,000	\$ 490,000
Non-Current Net operating loss	<u>1,361,000</u>	<u>1,970,000</u>
Total Net operating loss carry forwards	<u>1,856,000</u>	<u>2,460,000</u>
Net deferred tax assets	1,856,000	2,460,000
Less - Valuation Allowance	<u>(542,000)</u>	<u>(1,285,000)</u>
Deferred Tax Benefit	<u>\$ 1,314,000</u>	<u>\$ 1,175,000</u>

A valuation allowance has been established to eliminate the net deferred tax benefit due to uncertainty as to whether the tax benefits would ever be realized. During the year, as a result of the continuing diversification and growth in customer base, ongoing profits from operations and the Company's revised estimate of future taxable income, it was concluded that it is more likely than not that future taxable income will be sufficient to realize a larger portion of the Company's deferred asset.

FOOD TECHNOLOGY SERVICE, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2009

Note D - Income Taxes (continued)

The Company believes that its estimate of future operations is conservative and reasonable, but inherently uncertain. Accordingly, if future operations generate taxable income greater than the projections, further adjustments to reduce the reserve are possible. Conversely, if the Company realizes unforeseen material losses in the future and its future projections of income decrease, the allowance could be increased resulting in a charge to income.

Income taxes for the years ended December 31, 2009 and 2008 differ from the amounts computed by applying the effective income tax rates of 37.63% and 40%, respectively, to income before income taxes as a result of the following:

	<u>2009</u>	<u>2008</u>
Expected provision at US statutory rate	\$ 190,200	\$ 183,600
State income tax net of federal benefit	20,300	20,400
Nondeductible	4,400	6,856
Change in estimates and available NOL carryforwards	389,100	86,144
Change in valuation allowance	<u>(743,000)</u>	<u>(822,000)</u>
Income tax (benefit)	<u>\$ (139,000)</u>	<u>\$ (525,000)</u>

The Company's tax years 2005 through 2008 remain open to examination by taxing jurisdictions.

Note E - Stock Options

On February 9, 1999 the Board of Directors approved an option program for non-employee Directors.

The program was amended in 2001 and 2005 to provide for the annual granting to each non-employee Director of five year options to purchase 1,500 shares of common stock, exercisable at the end of one year at the market value of the shares of common stock on the date of grant. Also, the Chairman of the Board is awarded annually five year options to purchase an additional 2,500 shares.

Shares were granted to Directors as follows:

<u>Year</u>	<u>Shares</u>	<u>Per Share</u>
2006	10,000	\$3.28
2007	10,000	\$2.52
2008	11,500	\$2.18
2009	11,500	\$1.89

On June 23, 2000 the Stockholders approved the 2000 Incentive and Non-Statutory Stock Option Plan (the "2000 Plan").

FOOD TECHNOLOGY SERVICE, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2009

Note E - Stock Options (continued)

The 2000 Plan is administered by the Board of Directors who is authorized to grant incentive stock options ("ISO's") to Officers and employees of the Company and non-qualified options ("NQO's") for certain other individuals providing services to or serving as Directors of the Company.

The maximum number of shares of the Company's Stock that may be issued under the 2000 Plan is 125,000 shares. Options granted and outstanding under this plan are as follows:

<u>Year</u>	<u>Shares</u>
2005	2,500
2006	100,000
2007	<u>20,000</u>
	<u>122,500</u>

The ISO's are exercisable 20% of the authorized amount immediately and 20% in each of the following four years. ISO's granted to an optionee terminate 30 to 90 days after termination of employment or other relationship, except that ISO's terminate the earlier of the expiration date of the option, or 90 to 180 days in the event of death and 180 days to one year in the event of disability.

No further options are being issued under the 2000 Plan.

On May 14, 2009 the Stockholders approved the 2009 Incentive and Non-Statutory Stock Option Plan (the "2009 Plan").

The 2009 Plan is administered by the Board of Directors who is authorized to grant incentive stock options ("ISO's") to Officers and employees of the Company and non-qualified options ("NQO's") for certain other individuals providing services to or serving as Directors of the Company.

The maximum number of shares of the Company's Stock that may be issued under the 2009 Plan is 125,000 shares.

As of December 31, 2009 options to purchase 11,500 shares have been granted under this plan.

The aggregate fair market value (determined at the time an ISO is granted) of the Common Stock with respect to which ISO's are exercisable for the first time by any person during any calendar year under the Plans shall not exceed \$100,000.

The ISO's are exercisable 20% of the authorized amount immediately and 20% in each of the following four years. ISO's granted to an optionee terminate 30 to 90 days after termination of employment or other relationship, except that ISO's terminate the earlier of the expiration date of the option, or 90 to 180 days in the event of death and 180 days to one year in the event of disability.

FOOD TECHNOLOGY SERVICE, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2009

Note E - Stock Options (continued)

Changes that occurred in options outstanding are summarized below:

	<u>2009</u>		<u>2008</u>	
	Average Exercise		Average Exercise	
	<u>Shares</u>	<u>Price</u>	<u>Shares</u>	<u>Price</u>
Outstanding at beginning of year	232,250	\$2.57	171,250	\$3.26
Granted	11,500	\$1.89	71,500	\$1.15
Exercised	--	--	--	--
Expired/canceled	<u>(1,500)</u>	<u>\$4.96</u>	<u>(10,500)</u>	<u>\$4.02</u>
Outstanding at end of year	242,250	\$2.53	232,250	\$2.57
Exercisable at end of year	140,750	\$2.84	83,250	\$3.17

As mentioned in Note A, effective January 1, 2006, the Company adopted the fair value recognition provisions of FASB ASC 718. As a result, additional compensation expense of \$39,383 and \$33,094 was recorded in 2009 and 2008, respectively. An additional \$59,812 could be recorded over the remaining vesting period of 60 months. The Company used the following assumptions in applying the Black-Scholes pricing method:

	<u>2009</u>	<u>2008</u>
Risk free interest rate	1.98%	1.55%
Expected Volatility	81%	30%
Expected Life	5 years	5 years
Dividend Yield	0%	0%

Note F - Related Party Transactions:

The Company's supplier of Cobalt, MDS Nordion owns approximately 18.19% of the Company's outstanding common stock (see Note B & C for financing agreement and line of credit).

FOOD TECHNOLOGY SERVICE, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2009

Note F - Related Party Transactions (continued)

The Company has recently purchased the following Cobalt from MDS Nordion:

<u>Year</u>	<u>Curies</u>	<u>Amount</u>
2007	384,065	799,523
2008	200,000	470,688

Note G - Earnings Per Share

Earnings per share is calculated in accordance with ASC 260-10, "Earnings Per Share". Basic earnings per share is computed by dividing net income by the weighted average number of common shares outstanding during the years. Diluted earnings per share reflects the potential dilution that could occur if securities or other contracts to issue common shares were exercised or converted into common shares. Common share equivalents are excluded from the computation of diluted earnings per share if their effects would be anti-dilutive.

ASC 260-10 requires the presentation of both Basic EPS and Diluted EPS on the face of the Company's Statements of Operations.

The following table sets forth the computation of basic and diluted per share information:

	<u>2009</u>	<u>2008</u>
Numerator:		
Net Income	\$ 698,358	\$ 1,030,387
Dilutive effect of stock options	<u>60,000</u>	<u>60,000</u>
Weighted average common shares outstanding, assuming dilution	<u>2,816,458</u>	<u>2,816,458</u>

Potential common shares from out of the money options were excluded from the computation of diluted EPS because calculation of the associated potential common shares have an anti-dilutive effect on EPS. The following table lists options that were excluded from EPS.

Out of the money options excluded

	<u>2009</u>	<u>2008</u>
Stock option with an exercise price of \$3.60	5,000	5,000
Stock option with an exercise price of \$4.56	2,500	2,500
Stock option with an exercise price of \$4.12	7,000	7,000
Stock option with an exercise price of \$3.56	2,250	2,250
Stock option with an exercise price of \$3.36	2,500	2,500
Stock option with an exercise price of \$3.28	10,000	10,000
Stock option with an exercise price of \$3.24	100,000	100,000
Stock option with an exercise price of \$2.52	10,000	10,000

FOOD TECHNOLOGY SERVICE, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2009

Note G - Earnings Per Share (continued)

Stock option with an exercise price of \$2.57	20,000	20,000
Stock option with an exercise price of \$2.18	11,500	11,500
Stock option with an exercise price of \$1.89	<u>11,500</u>	<u>-</u>
Total anti-dilutive options excluded from EPS	<u>182,250</u>	<u>170,750</u>

Note H - Concentration and Credit Risk

Although the Company continues to diversify its customer base, three customers accounted for approximately 62% of revenues in 2009.

The Company's cash and accounts receivable are subject to potential credit risk. Management continuously monitors the credit standing of the financial institutions and customers with which the Company deals. A provision has been made for doubtful accounts which historically have not been significant.

Note I - Commitments and Contingencies

On March 11, 2006, the Board of Directors extended the President's employment contract for five years commencing September 1, 2006 at an annual salary of \$110,000 (\$115,000 as amended) plus options to purchase 100,000 shares of the Company's common stock at \$3.24.

Note J - Recent Accounting Pronouncements

Adoption of New Accounting Standards

In May 2009, the FASB issued FASB ASC 855-10-05, "Subsequent Events", which requires companies to evaluate events and transactions that occur after the balance sheet date but before the date the financial statements are issued, or available to be issued in the case of non-public entities. FASB ASC 855-10-05 requires entities to recognize in the financial statements the effect of all events or transactions that provide additional evidence of conditions that existed at the balance sheet date, including the estimates inherent in the financial preparation process. Entities shall not recognize the impact of enters or transactions that provide evidence about conditions that did not exist at the balance sheet date but arose after that date. FASB ASC 855-10-05, also requires entities to disclose the date through which subsequent events have been evaluated. FASB ASC 855-10-05 is effective for the interim and annual reporting periods ending after June 15, 2009. We adopted the provisions of FASB ASC 855-10-05 for the year ended December 31, 2009, as required, the adoption did not have a material impact on our financial statements.

FOOD TECHNOLOGY SERVICE, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2009

Note J - Recent Accounting Pronouncements (continued)

In June 2009, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No. 168, "The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles – a replacement of FASB Statement No. 162" ("The Codification"). The Codification reorganized existing U.S. accounting and reporting standards issued by the FASB and other related private sector standard setters into a single source of authoritative accounting principles arranged by topic. The Codification supersedes all existing U.S. accounting standards; all other accounting literature not included in the Codification (other than Securities and Exchange Commission guidance for publicly-traded companies) is considered non-authoritative. The Codification was effective on a prospective basis for interim and annual reporting periods ending after September 15, 2009. The adoption of the Codification changed the Company's references to U.S. GAAP accounting standards but did not impact the Company's financial statements.

Note K - Subsequent Events

We have evaluated subsequent events for recognition or disclosure in these financial statements through the date of issuance of these financial statements, and determined there are no material transactions to recognize or disclose.

FOOD TECHNOLOGY SERVICE, INC.
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