

BRAVO FOODS INTERNATIONAL CORP  
Form 10QSB  
May 11, 2005

-----  
UNITED STATES SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-QSB  
QUARTERLY OR TRANSITIONAL REPORT

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934

For the Quarterly Period Ended March 31, 2005

TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE EXCHANGE ACT

Commission File Number 000-25039

BRAVO! FOODS INTERNATIONAL CORP.  
(Exact name of registrant as specified in its amended charter)

formerly  
China Premium Food Corporation

Delaware  
(State or other jurisdiction of  
incorporation or organization)

62-1681831  
(I.R.S. Employer  
Identification No.)

11300 US Highway 1, North Palm Beach, Florida 33408 USA  
(Address of principal executive offices)

(561) 625-1411  
Registrant's telephone number

-----  
(Former name, former address and former fiscal year if changed  
since last report)

The number of shares outstanding of each of the issuer's classes of common  
stock, as of the latest practicable date is as follows:

| Date        | Class        | Shares Outstanding |
|-------------|--------------|--------------------|
| May 3, 2005 | Common Stock | 63,488,591         |

Transitional Small Business Disclosure Format (Check One) YES  NO

BRAVO! FOODS INTERNATIONAL CORP.

TABLE OF CONTENTS

PART I. FINANCIAL INFORMATION

Item 1. Financial statements

## Edgar Filing: BRAVO FOODS INTERNATIONAL CORP - Form 10QSB

|  |     |
|--|-----|
| Consolidated balance sheets as of December 31, 2004<br>and March 31, 2005 (unaudited)                      | F-1 |
| Consolidated statements of operations<br>(unaudited) for the three months ended<br>March 31, 2004 and 2005 | F-3 |
| Consolidated statements of cash flows<br>(unaudited) for the three months ended<br>March 31, 2004 and 2005 | F-4 |
| Notes to consolidated financial statements (unaudited)   | F-5 |
| Item 2. Management's Discussion and Analysis of Financial<br>Condition and Results of Operations           | 11  |
| Item 3. Controls and Procedures  | 24  |
| PART II - OTHER INFORMATION  |     |
| Item 2. Changes In Securities and Use of Proceeds  | 24  |
| Item 6. Exhibits   | 27  |
| SIGNATURES   | 27  |
| EXHIBITS   | 28  |

### BRAVO! FOODS INTERNATIONAL CORP. AND SUBSIDIARIES

#### CONSOLIDATED BALANCE SHEETS

|   | December 31,<br>2004 | March 31,<br>2005 |
|---|----------------------|-------------------|
|   | -----                | -----             |
|   |                      | (unaudited)       |
| <b>Assets</b>                                   |                      |                   |
| <b>Current assets:</b>                          |                      |                   |
| Cash and cash equivalents                       | \$ 113,888           | \$ 117,559        |
| Accounts receivable                             | 51,968               | 35,124            |
| Inventories                                     | 11,656               | 4,675             |
| Prepaid expenses                                | 551,510              | 740,213           |
|   | -----                | -----             |
| Total current assets                            | 729,022              | 897,571           |
| Furniture and equipment, net                    | 111,206              | 114,643           |
| License rights, net of accumulated amortization | 67,301               | 231,045           |
| Trademarks, net                                 | 10,249               | 9,945             |
| Deferred product development costs              | 162,169              | 174,755           |
| Deposits  | 13,900               | 13,900            |
|   | -----                | -----             |

Edgar Filing: BRAVO FOODS INTERNATIONAL CORP - Form 10QSB

|                                     |              |              |
|-------------------------------------|--------------|--------------|
| Total assets                        | \$ 1,093,847 | \$ 1,441,859 |
|                                     | =====        | =====        |
| Liabilities and Capital Deficit     |              |              |
| Current liabilities:                |              |              |
| Note payable to International Paper | \$ 187,743   | \$ 187,743   |
| Note payable to Alpha Capital       | 217,954      | 277,796      |
| Note payable to Mid-Am Capital LLC  | 111,262      | 112,480      |
| Note payable to Libra Finance       | 40,106       | 42,709       |
| Note payable to Longview            | 54,086       | 177,632      |
| Note payable to Stonestreet         | 47,014       | 62,257       |
| Note payable to Whalehaven          | 17,082       | 55,335       |
| Note payable to Bi-Coastal          | 13,649       | 15,628       |
| Note payable to Gem Funding         | 8,231        | 10,209       |
| Note payable to Warner Brothers     | 147,115      | 147,115      |
| Note payable to Gamma Capital       | 59,678       | -            |
| Note payable to Momona Capital      | 25,885       | 36,979       |
| Note payable to Ellis International | 25,885       | 36,979       |
| Accounts payable                    | 1,763,339    | 2,026,994    |
| Accrued liabilities                 | 375,962      | 480,186      |
|                                     | -----        | -----        |
| Total current liabilities           | 3,094,991    | 3,670,042    |
| Dividends payable                   | 928,379      | 1,023,439    |
| Other notes payable                 | 100,171      | 118,831      |
|                                     | -----        | -----        |
| Total liabilities                   | 4,123,541    | 4,812,312    |
|                                     | -----        | -----        |

F-1

BRAVO! FOODS INTERNATIONAL CORP. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

|   | December 31,<br>2004 | March 31,<br>2005 |
|---|----------------------|-------------------|
|   | -----                | -----             |
| Commitments and contingencies   |                      |                   |
| Capital Deficit (Note 2):   |                      |                   |
| Series B convertible, 9% cumulative, and redeemable preferred stock, stated value \$1.00 per share, 1,260,000 shares authorized, 107,440 shares issued and outstanding, redeemable at \$107,440 | 107,440              | 107,440           |
| Series F convertible and redeemable preferred stock, stated value \$10.00 per share, 55,515 shares issued and outstanding   | 512,740              | 512,740           |
| Series H convertible, 7% cumulative and redeemable preferred stock, stated value \$10.00 per share, 165,500 shares issued and outstanding   | 895,591              | 895,591           |
| Series I convertible, 8% cumulative and redeemable  |                      |                   |

(unaudited)

Edgar Filing: BRAVO FOODS INTERNATIONAL CORP - Form 10QSB

|   |              |              |
|---|--------------|--------------|
| preferred stock, stated value \$10.00 per share,<br>30,000 shares issued and outstanding  | 72,192       | 72,192       |
| Series J convertible, 8% cumulative and redeemable<br>preferred stock, stated value \$10.00 per share,<br>200,000 shares issued and outstanding | 1,854,279    | 1,854,279    |
| Series K convertible, 8% cumulative and redeemable<br>preferred stock, stated value \$10.00 per share,<br>95,000 shares issued and outstanding  | 950,000      | 950,000      |
| Common stock, par value \$0.001 per share,<br>300,000,000 shares authorized, 57,793,501 and<br>61,481,295 shares issued and outstanding         | 57,794       | 61,481       |
| Additional paid-in capital  | 26,257,299   | 27,253,377   |
| Accumulated deficit   | (33,737,029) | (35,069,337) |
| Translation adjustment  | -            | (8,216)      |
|   | -----        | -----        |
| Total capital deficit   | (3,029,694)  | (3,370,453)  |
|   | -----        | -----        |
| Total liabilities and capital deficit   | \$ 1,093,847 | \$ 1,441,859 |
|   | =====        | =====        |

See accompanying notes.

F-2

BRAVO! FOODS INTERNATIONAL CORP. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

|  | Three Months Ended March 31,<br>2004 | 2005                 |
|--|--------------------------------------|----------------------|
|  | -----<br>(unaudited)                 | -----<br>(unaudited) |
| Revenue - unit sales                           | \$ 367,458                           | \$ 864,420           |
| Revenue - gross kit sales                      | 70,748                               | 33,350               |
|  | -----                                | -----                |
| Total revenue                                  | 438,206                              | 897,770              |
| Cost of sales                                  | (330,121)                            | (677,663)            |
|  | -----                                | -----                |
| Gross margin                                   | 108,085                              | 220,107              |
| Selling expenses                               | 253,038                              | 623,452              |
| Product development                            | 3,645                                | 63,591               |
| General and administrative expense             | 700,966                              | 653,247              |
|  | -----                                | -----                |
| Loss from operations                           | (849,564)                            | (1,120,183)          |
| Other income (expense)                         |                                      |                      |
| Interest expense, net                          | 31,685                               | 117,065              |
| Loss before income taxes                       | (881,249)                            | (1,237,248)          |
| Provision for income taxes                     | -                                    | -                    |
| Net loss                                       | (881,249)                            | (1,237,248)          |
|  |                                      |                      |
| Dividends accrued for Series B preferred stock | (2,411)                              | (2,384)              |
| Dividends accrued for Series G preferred stock | (10,864)                             | -                    |

Edgar Filing: BRAVO FOODS INTERNATIONAL CORP - Form 10QSB

|  |              |                |
|--|--------------|----------------|
| Dividends accrued for Series H preferred stock                     | (28,883)     | (28,566)       |
| Dividends accrued for Series I preferred stock                     | (5,984)      | (5,918)        |
| Dividends accrued for Series J preferred stock                     | (39,890)     | (39,452)       |
| Dividends accrued for Series K preferred stock                     | (5,436)      | (18,740)       |
|  | -----        | -----          |
| Net loss applicable to common shareholders                         | \$ (974,717) | \$ (1,332,308) |
|  | =====        | =====          |
| Weighted average number of common shares<br>outstanding            | 31,001,544   | 59,618,018     |
|  | =====        | =====          |
| Basic and diluted loss per share                                   | \$ (0.03)    | \$ (0.02)      |
|  | =====        | =====          |
| Comprehensive loss and its components<br>consist of the following: |              |                |
| Net loss   | \$ (881,249) | \$ (1,237,248) |
| Foreign currency translation adjustment                            | -            | (8,216)        |
|  | -----        | -----          |
| Comprehensive loss   | \$ (881,249) | \$ (1,245,464) |
|  | =====        | =====          |

See accompanying notes.

F-3

BRAVO! FOODS INTERNATIONAL CORP. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

|  | Three Months Ended March 31,<br>2004 | 2005                 |
|--|--------------------------------------|----------------------|
|  | -----<br>(unaudited)                 | -----<br>(unaudited) |
| Cash flows from operating activities:  |                                      |                      |
| Net loss   | \$ (881,249)                         | \$ (1,237,248)       |
| Adjustments to reconcile net loss to net<br>cash used in operating activities: |                                      |                      |
| Depreciation and amortization  | 59,100                               | 100,726              |
| Stock issuance for compensation, finders'<br>fee and due diligence fees        | 90,000                               | 57,500               |
| Increase (decrease) from changes in:   |                                      |                      |
| Accounts receivable  | 5,877                                | 16,844               |
| Inventories  | (10,000)                             | 6,981                |
| Prepaid expenses   | (242,762)                            | (188,703)            |
| Accounts payable and accrued expenses  | 409,736                              | 412,704              |
| Deferred product development costs   | (202,952)                            | (268,564)            |
|  | -----                                | -----                |
| Net cash used in operating activities  | (772,250)                            | (1,099,760)          |
|  | -----                                | -----                |
| Cash flows from investing activities:  |                                      |                      |
| Purchase of equipment  | (1,133)                              | (11,625)             |
|  | -----                                | -----                |

## Edgar Filing: BRAVO FOODS INTERNATIONAL CORP - Form 10QSB

|  |           |            |
|--|-----------|------------|
| Net cash used in investing activities          | (1,133)   | (11,625)   |
|  | -----     | -----      |
| Cash flows from financing activities:          |           |            |
| Proceeds of Series K preferred stock           | 800,000   | -          |
| Convertible notes payable                      | -         | 1,150,000  |
| Registration costs for financing               | -         | (26,728)   |
|  | -----     | -----      |
| Net cash provided by financing activities      | 800,000   | 1,123,272  |
|  | -----     | -----      |
| Effect of changes in exchange rates on cash    | -         | (8,216)    |
|  | -----     | -----      |
| Net (decrease) in cash and cash equivalents    | 26,617    | 3,671      |
| Cash and cash equivalents, beginning of period | 58,859    | 113,888    |
|  | -----     | -----      |
| Cash and cash equivalents, end of period       | \$ 85,476 | \$ 117,559 |
|  | =====     | =====      |

See accompanying notes.

F-4

### BRAVO! FOODS INTERNATIONAL CORP. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

#### Note 1 -Interim Periods

The accompanying unaudited consolidated financial statements include the accounts of Bravo! Foods International, Corp. and its wholly owned subsidiary Bravo! Brands (UK) Ltd. (the "Company"). The Company is engaged in the sale of flavored milk products and flavor ingredients in the United States, Mexico and nine countries in the Middle East, and is establishing infrastructures to conduct business in Canada and the United Kingdom.

The accompanying unaudited consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10QSB and Article 10 of Regulation S-X. All significant inter-company accounts and transactions have been eliminated in consolidation. The consolidated financial statements are presented in U.S. dollars. Accordingly, the accompanying financial statements do not include all the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation have been included. Operating results for the period ended March 31, 2005 are not necessarily indicative of the results that may be expected for the year ending December 31, 2005. For further information, refer to the consolidated financial statements and footnotes thereto included in the Company's annual report for the year ended December 31, 2004 .

As shown in the accompanying consolidated financial statements, the Company has suffered operating losses and negative cash flow from operations since inception and has an accumulated deficit of \$35,069,337, a capital deficit of \$3,370,453, negative working capital of \$2,772,471 and is delinquent on certain of its debts at March 31, 2005. Further, the

## Edgar Filing: BRAVO FOODS INTERNATIONAL CORP - Form 10QSB

Company's auditors stated in their report on the Company's Consolidated Financial Statements for the year ended December 31, 2004, that these conditions raise substantial doubt about the Company's ability to continue as a going concern. Management plans to increase gross profit margins in its U.S. business, grow its international business, obtain additional financing and is in the process of repositioning its products with the continued launch of four product lines and the initiation of an additional two new lines. While there is no assurance that funding will be available or that the Company will be able to improve its profit margins, the Company is continuing to actively seek equity and/or debt financing and has raised \$2,300,000 in the three months ending March 31, 2005, with half invested in January 2005 and the balance anticipated in the second quarter. No assurances can be given that the Company will be successful in carrying out its plans. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

### Revenue Recognition

The Company recognizes revenue in the United States at the gross amount of its invoices for the sale of finished product to wholesale buyers. Commencing with the first quarter 2004, the Company no longer uses the sale of "kits" as a revenue event in the United States. Rather,

F-5

### BRAVO! FOODS INTERNATIONAL CORP. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

the Company takes title to its branded flavored milks when they are shipped by the Company's third party processors and recognize as revenue the gross wholesale price charged to the Company's wholesale customers. Expenses for slotting fees and certain promotions are treated as a reduction of reported revenue. The Company determines gross margin by deducting from the reported wholesale price the cost charged by the Company's third party processors to produce the branded milk products. The sale of "kits" will remain as the revenue model for the Company's international business, with the exception of the United Kingdom and Canada, where the domestic business model will be implemented.

The Company recognizes revenue for its international business at the gross amount of its invoices for the sale of flavor ingredients and production rights (collectively referred to as "kits") at the time of shipment of flavor ingredients to processor dairies with whom the Company has production contracts for extended shelf life and aseptic long life milk. This recognition is based upon the Company's role as the principal in these transactions, its discretion in establishing kit prices (including the price of flavor ingredients and production right fees), its development and refinement of flavors and flavor modifications, its discretion in supplier selection and its credit risk to pay for ingredients if processors do not pay ingredient suppliers. The revenue generated by the production contracts under this model is allocated for the processors' purchase of flavor ingredients and fees charged by the Company to the processors for production rights. The Company formulates the price of production rights to cover its royalties under intellectual property licenses, which varies by licensor as a percentage of the total cost of a kit sold to the processor dairy under the production agreement. The Company recognizes revenue on the gross amount of "kit" invoices to the dairy processors and simultaneously records as cost of goods sold the cost of flavor ingredients paid by the processor dairies to ingredients suppliers. The recognition of revenue

## Edgar Filing: BRAVO FOODS INTERNATIONAL CORP - Form 10QSB

generated from the sale of production rights associated with the flavor ingredients is complete upon shipment of the ingredients to the processor, given the short utilization cycle of the ingredients shipped. The criteria to meet this guideline are: 1) persuasive evidence that an arrangement exists, 2) delivery has occurred or services have been rendered, 3) the price to the buyer is fixed or determinable and 4) collectibility is reasonably assured.

The Company follows the final consensus reached by the Emerging Issues Task Force (EITF) 99-19, "Reporting Revenue Gross as a Principal versus Net as an Agent". In certain circumstances in its U.S. business, the Company is required to pay slotting fees, give promotional discounts or make marketing allowances in order to secure wholesale customers. These payments, discounts and allowances reduce the Company's reported revenue in accordance with the guidelines set forth in EITF 01-9 and SEC Staff Accounting Bulletin No. 104. Pursuant to EITF 99-19, international sales of kits made directly to customers by the Company are reflected in the statements of operations on a gross basis, whereby the total amount billed to the customer is recognized as revenue.

### Stock-based Compensation

The Company has adopted the intrinsic value method of accounting for employee stock options as permitted by Statement of Financial Accounting Standards No. 123, "Accounting for Stock-

F-6

### BRAVO! FOODS INTERNATIONAL CORP. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

based Compensation" (SFAS No. 123) and discloses the pro forma effect on net loss and loss per share as if the fair value based method had been applied. For equity instruments, including stock options issued to non-employees, the fair value of the equity instruments or the fair value of the consideration received, whichever is more readily determinable, is used to determine the value of services or goods received and the corresponding charge to operations.

The Company did not issue stock options or other equity to its employees and management during the three months ending March 31, 2005.

### Note 2 - Transactions in Capital Deficit

On January 18, 2005, we converted \$35,931 of our April 2004 Convertible Promissory Note into 500,000 shares of common stock pursuant to a January 14, 2005 notice of conversion from Longview Fund LP, at a fixed conversion price of \$0.10. The conversion included \$14,068 of accrued and unpaid interest on the converted amount. We issued the underlying common stock upon conversion pursuant to our SB-2 registration statement, declared effective on August 3, 2004.

On January 19, 2005, we converted \$64,068 of our April 2004 Convertible Promissory Note into 641,387 shares of common stock pursuant to a January 19, 2005 notice of conversion from Longview Fund LP, at a fixed conversion price of \$0.10. The conversion included \$70 of accrued and unpaid interest on the converted amount. We issued the underlying common stock upon conversion pursuant to our SB-2 registration statement, declared effective on August 3, 2004.



## Edgar Filing: BRAVO FOODS INTERNATIONAL CORP - Form 10QSB

On January 31, 2005, we closed a funding transaction with Longview Fund, LP, Longview Equity Fund, LP, Longview International Equity Fund, LP, Alpha Capital Aktiengesellschaft and Whalehaven Funds Limited, five institutional accredited investors, for the issuance and sale to the Subscribers of up to \$2,300,000 of principal amount of promissory notes convertible into shares of our common stock, and Warrants to purchase shares of common stock at 100% coverage of the common stock issuable in accordance with the principal amount of the notes. One Million One Hundred Fifty Thousand Dollars (\$1,150,000) of the purchase price was paid on the initial closing date, and One Million One Hundred Fifty Thousand Dollars (\$1,150,000) of the purchase price will be payable within five (5) business days after the actual effectiveness of an SB-2 Registration Statement as defined in the Subscription Agreement. The initial closing notes were at prime plus 4% interest in the aggregate amount of \$1,150,000, plus five-year Warrants for the purchase of, in the aggregate, 9,200,000 shares of common stock, at the lesser of (i) \$0.16, or (ii) 101% of the closing bid price of the Common Stock as reported by Bloomberg L.P. for the OTC Bulletin Board for the trading day preceding the Closing Date. The notes are convertible into shares of our common stock at \$0.125 per common share. Conversions are limited to a maximum ownership of 9.99% of the underlying common stock at any one time. The notes have a maturity date two years from closing and are payable in twelve equal monthly installments, commencing June 1, 2005. The installment payments consist of principal equal to 1/20th of the initial principal amount which, subject to certain conditions

F-7

### BRAVO! FOODS INTERNATIONAL CORP. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

concerning trading volume and price, can be paid in cash at 103% of the monthly installment, or common stock or a combination of both. The notes have an acceleration provision upon the change in a majority of the present Board of Directors except as the result of the death of one or more directors, or a change in the present CEO. In connection with this transaction, we issued restricted common stock in the aggregate amount of 460,000 shares plus the aggregate cash amount of \$57,500 for due diligence fees to the investors in this transaction.

On February 14, 2005, we converted \$41,666 of our June 2004 Convertible Promissory Note into 430,327 shares of restricted common stock pursuant to a February 9, 2005 notice of conversion from Longview Fund LP, at a fixed conversion price of \$0.15. The conversion included \$22,882 of accrued and unpaid interest on the converted amount. We issued the Convertible Promissory Note and the underlying common stock upon conversion to an accredited investor, pursuant to a Regulation D offering. The underlying common stock is registered pursuant to a Form SB-2 registration statement declared effective April 18, 2005.

On February 16, 2005, we converted \$25,000 of our November 2003 Convertible Promissory Note into 549,340 shares of common stock pursuant to a February 15, 2005 notice of conversion from Gamma Opportunity Capital Partners LP, at a fixed conversion price of \$0.05. The conversion included \$2,467 of accrued and unpaid interest on the converted amount. We issued the underlying common stock upon conversion pursuant to a Form SB-2 registration statement, declared effective on August 3, 2004.

On March 23, 2005, we converted \$50,000 of our November 2003

## Edgar Filing: BRAVO FOODS INTERNATIONAL CORP - Form 10QSB

Convertible Promissory Note into 1,106,740 shares of common stock pursuant to a March 22, 2005 notice of conversion from Gamma Opportunity Capital Partners LP, at a fixed conversion price of \$0.05. The conversion included \$5,337 of accrued and unpaid interest on the converted amount. We issued the underlying common stock upon conversion pursuant to a Form SB-2 registration statement, declared effective on August 3, 2004.

### Note 3 - Business Segment and Geographic Information

The Company operates principally in the single serve flavored milk industry segment, under two distinct business models. In the United States, the Company is responsible for the sale of finished Slammers(R) flavored milk (referred to as "unit sales") to retail outlets. For these unit sales, the Company recognizes as revenue the invoiced wholesale prices that the Company charges to the retail outlets that purchase the Slammers(R) flavored milks. In countries other than the United States, the Company's revenue is generated by the sale of kits to dairy processors. Each kit consists of flavor ingredients for the Company's Slammers(R) flavored milks and production rights to manufacture and sell the milks. In line with the Company's revenue recognition policies, the Company recognizes the full invoiced kit price as revenue and credits the processor dairies. The Company currently sells kits to SADAFCO, a third party dairy processor located in Saudi Arabia, for distribution to nine Middle Eastern countries, and Neolac, a third party dairy processor located in Mexico.

F-8

### BRAVO! FOODS INTERNATIONAL CORP. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

### Note 4 - Subsequent Events

On April 14, 2005 and April 18, 2005, we issued 750,000 and 250,000 shares, respectively, of our common stock to Geoffrey Eiten, for services rendered for strategic business planning. These shares were part of 1,500,000 shares of the Company's common stock registered under a Form S-8 registration statement filed December 23, 2004.

On April 21, 2005, we closed a funding transaction with Alpha Capital Aktiengesellschaft for the issuance of a convertible 10% note in the aggregate amount of \$300,000. The promissory note is convertible into shares of common stock of the Company at \$0.20 per common share. Conversions are limited to a maximum ownership of 9.99% of the Company's common stock at any one time. The note has an October 31, 2005 maturity and is payable in five equal monthly installments, commencing June 1, 2005. The installment payments consist of principal (equal to 1/5th of the initial principal amount) plus accrued interest. Installments can be paid in cash or common stock valued at the average closing price of the Company's common stock during the five trading days immediately preceding the relevant installment due date. The Company has repriced Class B Warrants issued on June 30, 2004 from \$2.00 per share to \$0.125 per share, and issued restricted common stock in the aggregate amount of 93,750 shares for finder's fees to a third-party to facilitate this transaction. The Company has the right to prepay the promissory note by paying to the holder cash equal to 120% of the principal to be prepaid plus accrued interest. The notes have an acceleration provision upon the change in a majority of the present Board of Directors except as the result of the death of one or more directors, or a change in the present CEO of the Company. The common stock

## Edgar Filing: BRAVO FOODS INTERNATIONAL CORP - Form 10QSB

underlying the note and the finder's fee common stock have "piggy back" registration rights. We issued the convertible note and finder's fee common stock to accredited investors, pursuant to a Regulation D offering.

On April 22, 2005, we converted \$15,000 of our December 2004 Convertible Promissory Note into 154,930 shares of common stock pursuant to an April 19, 2005 notice of conversion from Momona Capital Corp., at a fixed conversion price of \$0.10 per share. The conversion included \$493 of accrued and unpaid interest on the converted amount. We issued the underlying common stock upon conversion pursuant to a Form SB-2 registration statement, declared effective on April 18, 2005.

On April 23, 2005, we converted \$20,000 of our December 2004 Convertible Promissory Note into 200,000 shares of common stock pursuant to an April 22, 2005 notice of conversion from Ellis International Ltd. Inc., at a fixed conversion price of \$0.10 per share. The conversion

F-9

did not include interest on the converted amount. We issued the underlying common stock upon conversion pursuant to a Form SB-2 registration statement, declared effective on April 18, 2005.

On April 29, 2005, we converted \$15,000 of our December 2004 Convertible Promissory Note into 155,137 shares of common stock pursuant to an April 27, 2005 notice of conversion from Momona Capital Corp., at a fixed conversion price of \$0.10 per share. The conversion included \$514 of accrued and unpaid interest on the converted amount. We issued the underlying common stock upon conversion pursuant to a Form SB-2 registration statement, declared effective on April 18, 2005.

On April 29, 2005, we converted \$20,000 of our December 2004 Convertible Promissory Note into 300,000 shares of common stock pursuant to an April 28, 2005 notice of conversion from Ellis International Ltd. Inc., at a fixed conversion price of \$0.10 per share. The conversion did not include interest on the converted amount. We issued the underlying common stock upon conversion pursuant to a Form SB-2 registration statement, declared effective on April 18, 2005.

On April 29, 2005, we converted \$10,000 of our December 2004 Convertible Promissory Note into 103,479 shares of common stock pursuant to an April 29, 2005 notice of conversion from Momona Capital Corp., at a fixed conversion price of \$0.10 per share. The conversion included \$347 of accrued and unpaid interest on the converted amount. We issued the underlying common stock upon conversion pursuant to a Form SB-2 registration statement, declared effective on April 18, 2005.

F-10

### ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS - THREE MONTHS ENDED MARCH 31, 2005

#### FORWARD-LOOKING STATEMENTS

Statements that are not historical facts, including statements about the Company's prospects and strategies and the Company's expectations about growth contained in this report are "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and

## Edgar Filing: BRAVO FOODS INTERNATIONAL CORP - Form 10QSB

Section 21E of the Securities Exchange Act of 1934, as amended. These forward-looking statements represent the present expectations or beliefs concerning future events. The Company cautions that such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the Company's actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Such factors include, among other things, the uncertainty as to the Company's future profitability; the uncertainty as to whether the Company's new business model can be implemented successfully; the accuracy of the Company's performance projections; and the Company's ability to obtain financing on acceptable terms to finance the Company's operations until profitability.

### OVERVIEW

The Company's business model includes the development and marketing of a Company owned Slammers(R) trademarked brand, the obtaining of license rights from third party holders of intellectual property rights to other trademarked brands, logos and characters and the granting of production and marketing rights to processor dairies to produce branded flavored milk. The Company generates revenue in its international (non-US) business through the sale of "kits" to these dairies. The price of the "kits" consists of an invoiced price for a fixed amount of flavor ingredients per kit used to produce the flavored milk and a fee charged to the dairy processors for the production, promotion and sales rights for the branded flavored milk. In the United States, the Company generates revenue from the unit sales of finished branded flavored milks to retail consumer outlets.

The Company's new product introduction and growth expansion continues to be expensive, and the Company reported a net loss of \$1,237,248 for the three-month period ended March 31 2005. As shown in the accompanying financial statements, the Company has suffered operating losses and negative cash flows from operations since inception and at March 31, 2005 has an accumulated deficit of \$35,069,337, a capital deficit of \$3,370,453, negative working capital of \$2,772,471. These conditions give rise to substantial doubt about the Company's ability to continue as a going concern. As discussed herein, the Company plans to work toward profitability in the Company's U.S. and international business and obtain additional financing. While there is no assurance that funding will be available or that the Company will be able to improve the Company's operating results, the Company is continuing to seek equity and/or debt financing. No assurances can be given, however, that management will be successful in carrying out the Company's plans.

11

### CORPORATE GOVERNANCE

#### The Board of Directors

The Company's board has positions for seven directors that are elected as Class A or Class B directors at alternate annual meetings of the Company's shareholders. Six of the seven current directors of the Company's board are independent. The Company's chairman and chief executive officer are separate. The board meets regularly, at least four times a year, and all directors have access to the information necessary to enable them to discharge their duties. The board, as a whole, and the audit committee in particular, reviews the Company's financial condition and performance on an estimated vs. actual basis and financial projections as a regular agenda

## Edgar Filing: BRAVO FOODS INTERNATIONAL CORP - Form 10QSB

item at scheduled periodic board meetings, based upon separate reports submitted by the Company's chief executive officer and chief financial officer. Directors are elected by the Company's shareholders after nomination by the board or are appointed by the board when a vacancy arises prior to an election. The Company has adopted a nomination procedure based upon a rotating nomination committee made up of those members of the director Class not up for election. The board presently is examining whether this procedure, as well as the make up of the audit and compensation committees, should be the subject of an amendment to the by-laws.

### Audit Committee

The Company's audit committee is composed of three independent directors and functions to assist the board in overseeing the Company's accounting and reporting practices. The Company's financial information is booked in house by the Company's CFO's office, from which the Company prepares financial reports. These financial reports are audited or reviewed by Lazar Levine & Felix LLP, independent registered certified accountants and auditors. The Company's chief financial officer reviews the preliminary financial and non-financial information prepared in house with the Company's securities counsel and the auditors. The committee reviews the preparation of the Company's audited and unaudited periodic financial reporting and internal control reports prepared by the Company's chief financial officer. The committee reviews significant changes in accounting policies and addresses issues and recommendations presented by the Company's internal and external certified accountants as well as the Company's auditors. Currently, there is one vacancy on the audit committee.

### Compensation Committee

The Company's compensation committee is composed of three independent directors who review the compensation structure and policies concerning executive compensation. The committee develops proposals and recommendations for executive compensation and presents those recommendations to the full board for consideration. The committee periodically reviews the performance of the Company's other members of management and the recommendations of the chief executive officer with respect to the compensation of those individuals. Given the size of the Company, all such employment contracts are periodically reviewed by the board. The board must approve all compensation packages that involve the issuance of the Company's stock or stock options.

12

### Nominating Committee

The nominating committee was established in the second quarter 2002 and consists of those members of the director Class not up for election. The committee is charged with determining those individuals who will be presented to the shareholders for election at the next scheduled annual meeting. The full board fills any mid term vacancies by appointment.

### CRITICAL ACCOUNTING POLICIES

#### Estimates

This discussion and analysis of the Company's consolidated financial condition and results of operations are based on the Company's consolidated

## Edgar Filing: BRAVO FOODS INTERNATIONAL CORP - Form 10QSB

financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires the Company to make estimates and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. On an on-going basis, the Company evaluates the Company's estimates, including those related to reserves for bad debts and valuation allowance for deferred tax assets. The Company bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the result of which forms the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ materially from these estimates under different assumptions or conditions. The Company's use of estimates, however, is quite limited as the Company has adequate time to process and record actual results from operations.

### Revenue recognition

#### United States

-----

The Company recognizes revenue in the United States at the gross amount of its invoices for the sale of finished product to wholesale buyers. The Company takes title to its branded flavored milks when they are shipped by the Company's third party processors and recognize as revenue the gross wholesale price charged to the Company's wholesale customers. The Company's gross margin is determined by the reported wholesale price less the cost charged by Jasper Products, the Company's third party processor, to produce the branded milk products.

Prior to 2004, the Company reported revenue in the United States from its sale of "kits" to third party processors and from the differential between the cost of producing its finished product and the wholesale price of its finished product. Commencing in the first quarter 2004, the Company reports revenue from its sale of finished product on the wholesale level. The Company reports the cost of producing the product charged by a third party processor as the cost of goods sold. This change in revenue recognition has resulted in materially higher reported revenue for the Company, with a corresponding material increase in reported costs of goods sold.

13

In certain circumstances in its U.S. business, the Company is required to pay slotting fees, give promotional discounts or make marketing allowances in order to secure wholesale customers. These payments, discounts and allowances reduce the Company's reported revenue in accordance with the guidelines set forth in EITF 01-9 and SEC Staff Accounting Bulletin No. 104.

#### International Sales

-----

The Company recognizes revenue in its international (non US) business at the gross amount of its invoices for the sale of kits at the time of shipment of flavor ingredients to processor dairies with whom the Company has production contracts for extended shelf life and aseptic long life milk. The Company bases this recognition on its role as the principal in these transactions, its discretion in establishing kit prices (including

## Edgar Filing: BRAVO FOODS INTERNATIONAL CORP - Form 10QSB

the price of flavor ingredients and production right fees), its development and refinement of flavors and flavor modifications, its discretion in supplier selection and its credit risk to pay for ingredients if processors do not pay ingredient suppliers. The revenue generated by the production contracts under this model consists of the cost of the processors' purchase of flavor ingredients and fees charged by the Company to the processors for production rights. The Company formulates the price of production rights to cover the Company's intellectual property licenses, which varies by licensor as a percentage of the total cost of a kit sold to the processor dairy under the production agreement. The Company recognizes revenue on the gross amount of "kit" invoices to the dairy processors and simultaneously records as cost of goods sold the cost of flavor ingredients paid by the processor dairies to ingredients supplier. The recognition of revenue generated from the sale of production rights associated with the flavor ingredients is complete upon shipment of the ingredients to the processor, given the short utilization cycle of the ingredients shipped.

Pursuant to EITF 99-19, international sales of kits made directly to customers by the Company are reflected in the statements of operations on a gross basis, whereby the total amount billed to the customer is recognized as revenue.

### RESULTS OF OPERATIONS

Financial Condition at March 31, 2005  
-----

As of March 31, 2005, we had an accumulated deficit of \$35,069,337, cash on hand of \$117,559 and reported total capital deficit of \$3,370,453.

For this same period of time, we had revenue of \$897,770 and general and administrative expense of \$653,247.

After interest expenses of \$117,065, cost of goods sold of \$677,663, product development costs of \$63,591 and selling expenses of \$623,452 incurred in the operations of the Company, we had a net loss of \$1,237,248.

14

Three Months Ended March 31, 2005 Compared to Three Months Ended March 31, 2004  
-----

### Consolidated Revenue

We had revenues for the three months ended March 31, 2005 of \$897,770, with cost of sales of \$677,663, resulting in a gross margin of \$220,107. This revenue and resultant gross margin is net of slotting fees, promotional discounts and marketing allowances for this period in the amount of \$94,545. Of the reported \$897,770, U.S. sales accounted for \$864,420 with an additional \$33,350 from international kit sales in the Middle East. We did not have revenue in this period in Canada or Mexico. Our reported revenue for the three months ended March 31, 2005 increased by \$459,564, a 104.87% increase compared to revenue of \$438,206 for the same period in 2004. This increase is the result of the Company's phase out of its Looney Tunes(TM) flavored milk products in the first quarter of 2004 and the development of four new branded product lines in the United States, including the launch of our Slammers(R) line of Marvel Comics Super Heroes(TM) branded flavored milks which did not occur until the second quarter 2004. We also began to ship kits to our third-party Middle East dairy processor during the second quarter 2004. In addition, we launched

## Edgar Filing: BRAVO FOODS INTERNATIONAL CORP - Form 10QSB

our Mars Starburst line in the first quarter 2005, and achieved market penetration in 20,000 grocery and C stores for this line by March 31, 2005.

### Consolidated Cost of Sales

We incurred cost of goods sold of \$677,663 for the three months ended March 31, 2005, \$675,050 of which was incurred in our U.S. business, and \$2,613 in connection with our international sales in the Middle East. Cost of goods sold in this period increased by \$347,542, a 105.28% increase compared to \$330,121 for the same period in 2004. The increase in cost of goods sold reflects an increase in sales and the concomitant increase in reported cost of goods sold associated with that increase.

In countries except the United States, our revenue is generated by the sale of kits to dairy processors. Each kit consists of flavor ingredients for flavored milks and production rights to manufacture and sell the milks. In line with our revenue recognition policies, we recognize the full invoiced kit price as revenue, less the cost of production charged by the processor, which we record as cost of goods sold.

In the United States, we are responsible for the sale of finished Slammers(R) flavored milk (referred to as "unit sales") to retail outlets. For these unit sales, we recognize as revenue the invoiced wholesale prices that we charge to the retail outlets that purchase the Slammers(R) flavored milks. We report as cost of goods sold the price charged to it by Jasper Products, a third party processor under contract with the Company, for producing the finished Slammers(R) products.

### Segmented Revenues and Costs of Sales

The following table presents revenue by source and type against costs of goods sold, as well as combined gross revenues and gross margins. In countries other than the United States, revenues for the period ended March 31, 2005 were generated by kit sales to third party

15

processors. The Company's revenue from the sale of finished product to retail outlets is recorded as "unit sales" on the following table.

| Three Months Ended<br>March 31, 2005 | United States | Canada | Mexico | Middle East | Total<br>Company |
|--------------------------------------|---------------|--------|--------|-------------|------------------|
| -----                                | -----         | -----  | -----  | -----       | -----            |
| Revenue - unit sales                 | \$ 864,420    | \$ -   | \$ -   | \$ -        | \$ 864,420       |
| Revenue - gross kit sales            | -             | -      | -      | 33,350      | 33,350           |
|                                      | -----         | ---    | -----  | -----       | -----            |
| Total revenue                        | 864,420       | -      | -      | 33,350      | 897,770          |
| Cost of goods sold                   | (675,050)     | -      | -      | (2,613)     | (677,663)        |
|                                      | -----         | ---    | -----  | -----       | -----            |
| Gross margin                         | \$ 189,370    | \$ -   | \$ -   | \$30,737    | \$ 220,107       |
|                                      | =====         | ===    | =====  | =====       | =====            |



Edgar Filing: BRAVO FOODS INTERNATIONAL CORP - Form 10QSB

| Three Months Ended<br>March 31, 2004<br>----- | United States<br>----- | Canada<br>----- | Mexico<br>----- | Middle East<br>----- | Total<br>Company<br>----- |
|---|------------------------|-----------------|-----------------|----------------------|---------------------------|
| Revenue - unit sales                          | \$ 367,458             | \$ -            | \$ -            | \$ -                 | \$ 367,458                |
| Revenue - gross kit sales                     | 44,380                 | -               | 26,368          | -                    | 70,748                    |
|   | -----                  | ---             | -----           | -----                | -----                     |
| Total revenue                                 | 411,838                | -               | 26,368          | -                    | 438,206                   |
| Cost of goods sold                            | (322,343)              | -               | (7,778)         | -                    | (330,121)                 |
|   | -----                  | ---             | -----           | -----                | -----                     |
| Gross margin                                  | \$ 89,495              | \$ -            | \$18,590        | \$ -                 | \$ 108,085                |
|   | =====                  | ===             | =====           | =====                | =====                     |

United States  
-----

Revenues for the period ended March 31, 2005 from unit sales in the United States increased from \$367,458 for the same period in 2004 to \$864,420 in 2005, a 135% increase. The increase is the result of the introduction of the Company's new product lines during this period.

In the period ended March 31, 2005, our gross margin for U.S. sales of \$189,370, increased by \$99,875, or by 111.6%, from \$89,495 for the same period in 2004. The increase in gross margin was the result of the increased sales and greater efficiencies in the production of our products.

Foreign Sales  
-----

Revenues for the period ended March 31, 2005 from kit sales in foreign countries increased from \$26,368 for the same period in 2004 to \$33,350, a 26.47 % increase. The increase is the result of sales in the Middle East during this period.

We recorded \$2,613 in costs of kit sales in foreign countries for the period ended March 31, 2005, a decrease of \$5,165 or 66.4% from \$7,778 for the same period in 2004. As a percentage of sales, the costs of goods sold decreased to 7.84% for the period ended March 31, 2005, from 29.5% for the same period in 2004.

16

For the period ended March 31, 2005, our gross profit of \$30,737 for kit sales in foreign countries increased by \$12,147, or 65.34%, from \$18,590 for the same period in 2004. The increase in gross profit was consistent with the increase in sales volume and the decrease in cost of goods sold for this period.

Consolidated Operating Expenses

We incurred selling expenses of \$623,452 for the period ended March 31, 2005, of which \$535,307 was incurred in our United States operations. Our selling expense for this period increased by \$370,414, a 146.38% increase compared to our selling expense of \$253,038 for the same period in 2004. The increase in selling expenses in the current period was due to increased freight and promotional charges associated with increased sales

## Edgar Filing: BRAVO FOODS INTERNATIONAL CORP - Form 10QSB

and our development of four new product lines, utilizing newly licensed and directly owned branded trademarks.

We incurred general and administrative expenses for the period ended March 31, 2005 of \$653,247, most of which we incurred in our United States business operations and a small portion for the enlargement of our international business into the United Kingdom. Our general and administrative expenses for this period decreased by \$47,719, a 6.81% decrease compared to \$700,966 for the same period in 2004. The decrease in general and administrative expenses for the current period is the result of greater efficiencies in the running of our business activities.

As a percentage of total revenue, the Company's general and administrative expenses decreased from 160% in the period ended March 31, 2004, to 72.8% for the current period in 2005. We anticipate a continued effort to reduce these expenses as a percentage of sales through revenue growth, cost cutting efforts and the refinement of business operations.

### Interest Expense

We incurred interest expense for the period ended March 31, 2005 of \$117,065. Our interest expense increased by \$85,380, a 269.47% increase compared to \$31,685 for the same period in 2004. The increase was due to additional loans in 2005 and utilizing debt to finance the Company's operations during this period's transition in licensors of intellectual property utilized by the Company and the development and launch of new product lines.

### Loss Per Share

We accrued dividends payable of \$95,060 for various series of preferred stock during the period ended March 31, 2005. The accrued dividends increased for this period by \$1,592, or 1.7%, from \$93,468 for the same period in 2004. The net loss before accrued dividends for the current period increased \$355,999, from \$881,249 for the period ended March 31, 2004 to \$1,237,248 for the current period, and the increase in accrued dividends was offset by the increase in the weighted average number of common shares outstanding, resulting in a decrease in the Company's current period loss per share from \$0.03 for the same period in 2004, to a loss per share of \$0.02 for the current period.

17

## LIQUIDITY AND CAPITAL RESOURCES

As of March 31, 2005, we reported that net cash used in operating activities was \$1,099,760, net cash provided by financing activities was \$1,123,272 and net cash used in investing activities was \$11,625. We had a negative working capital of \$2,772,471 as of March 31, 2005.

Compared to \$772,250 of net cash used in operating activities in the period ended March 31, 2004, our current period net cash used in operating activities increased by \$327,510 to \$1,099,760. This increase was the result of our utilization of cash rather than equity to pay service providers in this current period, and changes in deferred product development costs, prepaid expenses, accounts payable and accrued expenses. Included in the net loss in this current period were depreciation and amortization and stock compensation for a finder fee aggregating \$158,226, compared to \$149,100 for the same period in 2004.

## Edgar Filing: BRAVO FOODS INTERNATIONAL CORP - Form 10QSB

Changes in accounts receivable in this current period in 2005 resulted in a cash increase of \$16,844, compared to a cash increase in receivables of \$5,877 for the same period in 2004, having a net result of a increase of \$10,967. The changes in accounts payable and accrued liabilities in the period ended of March 31, 2004 contributed to a cash increase of \$409,736, whereas the changes in accounts payable and accrued liabilities for the current period in 2005 amounted to an increase of \$412,704. We have adopted and will keep implementing cost-cutting measures to lower our costs and expenses and to pay our accounts payable and accrued liabilities by using cash and equity instruments. Cash flow generated through our operating activities was inadequate to cover all of our cash disbursement needs in the period ended March 31, 2005, and we had to rely on equity and debt financing to cover expenses.

Cash used in the period ended March 31, 2005 in our investing activities for equipment was \$11,625 for software, computer equipment and leasehold improvements in the U.S., compared to \$1,133 for the same period in 2004.

Net cash provided by our financing activities for the period ended March 31, 2005 was \$1,123,272. Net cash provided by financing activities for the same period in 2004 was \$800,000, for a net increase of \$323,272. The increase was due to investors' commitments for \$2,300,000, with aggregate convertible notes for \$1,150,000 in the three months ending March 31, 2005, and the balance anticipated in the second quarter, and associated costs.

The Company used the proceeds of the current period financing for working capital purposes to support the launch of a new product line under a license from Masterfoods USA..

Going forward, our primary requirements for cash consist of the following:

- \* the continued development of our business model in the United States and on an international basis;
- \* general overhead expenses for personnel to support the new business activities;
- \* development, launch and marketing costs for our line of new branded flavored milk products, and
- \* the payment of guaranteed license royalties.

18

We estimate that our need for financing to meet cash needs for operations will continue through the fourth quarter of 2005, when we expect that cash supplied by operating activities will approach the anticipated cash requirements for operation expenses. We anticipate the need for additional financing in 2005 to reduce our liabilities, assist in marketing and to improve shareholders' equity status. No assurances can be given that we will be able to obtain additional financing, or that operating cash flows will be sufficient to fund our operations.

We currently have monthly working capital needs of approximately \$220,000. We will continue to incur significant selling and other expenses in 2005 in order to derive more revenue in retail markets, through the introduction and ongoing support of our new products. Certain of these expenses, such as slotting fees and freight charges, will be reduced as a function of unit sales costs as we expand our sales markets and increase our sales within established markets. Freight charges will be reduced as we

## Edgar Filing: BRAVO FOODS INTERNATIONAL CORP - Form 10QSB

are able to ship more full truckloads of product given the reduced per unit cost associated with full truckloads versus less than full truckloads. Similarly, slotting fees, which are paid to warehouses or chain stores as initial set up or shelf space fees, are essentially one-time charges per new customer. We believe that along with the increase in our unit sales volume, the average unit selling expense and associated costs will decrease, resulting in gross margins sufficient to mitigate cash needs. In addition, we are actively seeking additional financing to support our operational needs and to develop an expanded promotional program for our products.

We are continuing to explore new points of sale for our branded flavored milk. Presently, we are aggressively pursuing the school and vending market through trade/industry shows and individual direct contacts. The implementation of such a school base program, if viable, could have an impact on the level of our revenue during 2005. Similarly, we expect that the greater control over sales resulting from our refined business model and the anticipated expansion into bodega stores as well as national chains, such as 7-Eleven, will have a positive impact on revenues.

### New Product Lines

-----

In the third quarter 2003, we commenced an analysis of the Looney Tunes(TM) brand performance within the context of the possible renewal of our Warner Bros. licenses for United States, Mexico, China and Canada. In the fourth quarter 2003, we concluded that, as a function of the sales of flavored milks, the Looney Tunes(TM) brand has not supported the guaranteed royalty structure required by Warner Bros. for its licenses. In the fourth quarter 2003, we decided not to renew our license agreements with Warner Bros., and began to develop new products in anticipation of the consummation of other license relationships with Marvel Comics and MoonPie for co-branded flavored milk, as well as a new single Slammers(R) brand. We have developed new aseptic products in anticipation of these licenses and our own singular brand. We launched four brands in 2004, beginning with Ultimate Slammers in April and achieved national distribution of Ultimate Slammers through both retail grocers and convenience stores by mid- summer. Roughly 10,000 retail supermarket stores carried this brand nationwide in 2004. This was followed by the June launch of Slim Slammers(R) and Moon Pie Slammers(R) and the July release of the Pro-Slammers(TM).

19

Coincident with the Marvel license, we executed a production agreement with Saudia Dairy & Foodstuff Company (SADAFCO), one of the largest Middle East dairy processors, headquartered in Jeddah, Saudi Arabia. SADAFCO processes our Slammers (R) branded flavored milks, including the Marvel line, for distribution in nine Middle East countries. SADAFCO has the capacity to process our branded milk products for distribution throughout the European Community. AsheTrade, our international agent, facilitated our international business in 2004 with offices in Miami, Florida and Jeddah, Saudi Arabia.

On September 21, 2004, we entered into a licensing agreement with Masterfoods USA, a division of Mars, Incorporated, for the use of Masterfood's Milky Way(R) Starburst(R) and 3 Musketeers(R) trademarks in connection with the manufacture, marketing and sale of single serve flavored milk drinks in the United States, our possessions and Territories, and US Military installations worldwide. The license limits the relationship of the parties to separate independent entities. The initial

## Edgar Filing: BRAVO FOODS INTERNATIONAL CORP - Form 10QSB

term of the license agreement expires December 31, 2007. We have agreed to pay a royalty based upon the total net sales value of the licensed products sold and advance payments of certain agreed upon guaranteed royalties. Ownership of the licensed marks and the specific milk flavors to be utilized with the marks remains with Masterfoods. We have been granted a right of first refusal for other milk beverage products utilizing the Masterfoods marks within the license territory.

### External Sources of Liquidity

-----

#### Individual Loans

-----

On November 6 and 7, 2001, respectively, we received the proceeds of two loans aggregating \$100,000 from two offshore lenders. The two promissory notes, one for \$34,000 and the other for \$66,000, were payable February 1, 2002 and bear interest at the annual rate of 8%. These loans are secured by a general security interest in all our assets. On February 1, 2002, the parties agreed to extend the maturity dates until the completion of the anticipated Series H financing. On September 18, 2002, the respective promissory note maturity dates were extended by agreement of the parties to December 31, 2002. On September 18, 2002, we agreed to extend the expiration dates of warrants issued in connection with our Series D and F preferred until September 17, 2005 and to reduce the exercise price of certain of those warrants to \$1.00, in partial consideration for the maturity date extension. The holders of these notes have agreed to extend the maturity dates, and the notes are now payable on a demand basis.

On August 27, 2003, we received the proceeds of a loan from Mid-Am Capital, L.L.C., in the amount of \$150,000. The note was payable November 25, 2003 and bears interest at the annual rate of 10%. This loan was secured by a general security interest in all our assets. On April 2, 2004, this note was paid and cancelled.

On January 28, 2004, we converted accounts payable in the amount of \$1,128,386 by the issuance of a 10% short term promissory note to Jasper Products, LLC, dated January 1, 2004, in the principal amount of \$1,128,386 for amounts owed to Jasper in connection with Jasper's processing and sale of our products. As of March 31, 2004, we paid \$200,000 in principal and

20

was credited an additional \$11,350. On April 20, 2004, we paid an additional \$200,000. On May 7, 2004, we paid \$717,036 in full payment of the note's principal and accrued interest.

On May 6, 2004, we issued a secured promissory note to Mid- Am Capital LLC in the principal amount of \$750,000. The note provides for 8% interest. The note's original maturity date of September 4, 2004 has been extended to January 31, 2005. We issued warrants to purchase 3,000,000 shares of our common stock to Mid-Am in connection with this promissory note. The warrants are exercisable for one year from issue at an exercise price of \$0.25 per share. We used the proceeds of this promissory note to pay the promissory note issued to Jasper Products in January 2004.

#### Convertible Debentures

-----

## Edgar Filing: BRAVO FOODS INTERNATIONAL CORP - Form 10QSB

To obtain funding for our ongoing operations, we entered into the following financing transactions in 2004.

April 2004  
-----

In April 2004, we entered into a Subscription Agreement with two accredited investors for the sale of (i) \$500,000 in convertible debentures and (ii) warrants to buy 3,000,000 shares of our common stock at \$0.15 per share. In connection with this financing, we paid a fee, which included an aggregate of convertible debentures in the amount of \$50,000.

The debentures issued in connection with the April 2004 financing bear interest at 10%. The principal on the notes is due in equal monthly installments commencing on November 1, 2004 until October 1, 2005. On October 1, 2005, all principal and interest shall become due. In the event that our common stock has a closing price in excess of \$.20 for the five days preceding the monthly payment, then, within our discretion, the monthly payment may be deferred. The notes are convertible into our common stock at \$0.10 per share. Based on this conversion price, the \$550,000 convertible debentures, excluding interest, were convertible into 5,500,000 shares of our common stock.

The note holders have contractually agreed to restrict their ability to convert or exercise their warrants and receive shares of our common stock such that the number of shares of common stock held by them and their affiliates after such conversion or exercise does not exceed 9.99% of the then issued and outstanding shares of common stock.

June 2004  
-----

In June 2004, we entered into a Subscription Agreement with Longview Fund, LP, Alpha Capital Aktiengesellschaft, Whalehaven Funds Limited, Stonestreet Limited Partnership and Mid-Am Capital L.L.C for the issuance of convertible 10% notes in the aggregate amount of \$1,300,000 and five-year "A" warrants for the purchase of, in the aggregate, 5,200,000 shares of common stock, at \$0.25 per share, and five-year "B" warrants for the purchase of, in the aggregate, 13,000,000 shares of common stock, at \$2.00 per share. In connection with the October 2004 financing, we subsequently amended the exercise price to \$.15 for the "A" warrants issued to Longview Fund, LP, Alpha Capital Aktiengesellschaft, Whalehaven Funds

21

Limited and Stonestreet Limited Partnership. The notes are convertible into shares of our common stock at \$0.15 per common share. The notes are payable in twelve equal monthly installments, commencing January 1, 2005. The installment payments consist of principal and a "premium" of 20% of the principal paid per installment. We have the option to defer such payment until the note's maturity date on December 1, 2005, if our common stock trades above \$0.20 for the five trading days prior to the due date of an installment payment. In connection with this transaction, we issued additional notes in the aggregate amount of \$40,000 to Gem Funding, LLC, Bi-Coastal Consulting Corp., Stonestreet Limited Partnership and Libra Finance, S.A upon identical terms as the principal notes, as a finder's fee, and paid \$12,500 in legal fees. The common stock underlying all notes and warrants carry registration rights.

The note holders have contractually agreed to restrict their ability

## Edgar Filing: BRAVO FOODS INTERNATIONAL CORP - Form 10QSB

to convert or exercise their warrants and receive shares of our common stock such that the number of shares of common stock held by them and their affiliates after such conversion or exercise does not exceed 9.99% of the then issued and outstanding shares of common stock.

October 2004  
-----

On October 29, 2004, we entered into Subscription Agreements with Longview Fund, LP, Alpha Capital Aktiengesellschaft, Whalehaven Funds Limited and Stonestreet Limited Partnership for the issuance of convertible 10% notes in the aggregate amount of \$550,000 and five-year "C" warrants for the purchase of, in the aggregate, 2,200,000 shares of common stock, at \$0.15 per share, and the repricing of five-year "A" warrants, issued June 30, 2004 for the purchase of, in the aggregate, 3,200,000 shares of common stock, from \$0.25 to \$0.15 per share. The notes are convertible into shares of common stock at \$0.10 per common share. The notes are payable in twelve equal monthly installments, commencing May 1, 2005. The installment payments consist of principal and a "premium" of 20% of the principal paid per installment. We have the option to defer such payment until the note's maturity date on April 30, 2006, if our common stock trades above \$0.15 for the five trading days prior to the due date of an installment payment and the underlying common stock is registered. In connection with this transaction, we issued additional notes, without attached warrants, in the aggregate amount of \$27,500 to Gem Funding, LLC, Bi-Coastal Consulting Corp., Stonestreet Limited Partnership and Libra Finance, S.A upon identical terms as the principal notes, as a finder's fee, and paid \$12,500 in legal fees. The common stock underlying all notes and warrants carry registration rights.

The note holders have contractually agreed to restrict their ability to convert or exercise their warrants and receive shares of our common stock such that the number of shares of common stock held by them and their affiliates after such conversion or exercise does not exceed 9.99% of the then issued and outstanding shares of common stock.

December 2004  
-----

In December 2004, we entered into Subscription Agreements with Momona Capital Corp. and Ellis International Ltd. for the issuance of convertible 10% notes in the aggregate amount of \$200,000 and five-year "C" warrants for the purchase of, in the aggregate, 800,000 shares of common stock, at \$0.15 per share. The notes are convertible into shares of common stock at \$0.10 per common share. The notes are payable in twelve equal monthly installments,

22

commencing May 1, 2005. The installment payments consist of principal and a "premium" of 20% of the principal paid per installment. We have the option to defer such payment until the note's maturity date on April 30, 2006, if our common stock trades above \$0.15 for the five trading days prior to the due date of an installment payment and the underlying common stock is registered. In connection with this transaction, we issued additional notes, without attached warrants, in the aggregate amount of \$10,000 to Momona Capital Corp. and Ellis International Ltd. upon identical terms as the principal notes, as a finders' fees. The common stock underlying all notes and warrants carry registration rights.

## Edgar Filing: BRAVO FOODS INTERNATIONAL CORP - Form 10QSB

The note holders have contractually agreed to restrict their ability to convert or exercise their warrants and receive shares of our common stock such that the number of shares of common stock held by them and their affiliates after such conversion or exercise does not exceed 9.99% of the then issued and outstanding shares of common stock.

January 2005  
-----

On January 31, 2005, we closed a funding transaction with Longview Fund, LP, Longview Equity Fund, LP, Longview International Equity Fund, LP, Alpha Capital Aktiengesellschaft and Whalehaven Funds Limited, five institutional accredited investors, for the issuance and sale to the Subscribers of up to \$2,300,000 of principal amount of promissory notes convertible into shares of our common stock, and Warrants to purchase shares of common stock at 100% coverage of the common stock issuable in accordance with the principal amount of the notes. One Million One Hundred Fifty Thousand Dollars (\$1,150,000) of the purchase price was paid on the initial closing date, and One Million One Hundred Fifty Thousand Dollars (\$1,150,000) of the purchase price will be payable within five (5) business days after the actual effectiveness of an SB-2 Registration Statement as defined in the Subscription Agreement.

The initial closing notes were at prime plus 4% interest in the aggregate amount of \$1,150,000, plus five-year Warrants for the purchase of, in the aggregate, 9,200,000 shares of common stock, at the lesser of (i) \$0.16, or (ii) 101% of the closing bid price of the Common Stock as reported by Bloomberg L.P. for the OTC Bulletin Board for the trading day preceding the Closing Date.

The notes are convertible into shares of our common stock at \$0.125 per common share. Conversions are limited to a maximum ownership of 9.99% of the underlying common stock at any one time. The notes have a maturity date two years from closing and are payable in twelve equal monthly installments, commencing June 1, 2005. The installment payments consist of principal equal to 1/20th of the initial principal amount which, subject to certain conditions concerning trading volume and price, can be paid in cash at 103% of the monthly installment, or common stock or a combination of both. The notes have an acceleration provision upon the change in a majority of the present Board of Directors except as the result of the death of one or more directors, or a change in the present CEO. In connection with this transaction, we issued restricted common stock in the aggregate amount of 460,000 shares plus the aggregate cash amount of \$57,500 for due diligence fees to the investors in this transaction

23

### EFFECTS OF INFLATION

We believe that inflation has not had any material effect on our net sales and results of operations.

### ITEM 3. CONTROLS AND PROCEDURES

a) Evaluation of Disclosure Controls and Procedures. Our Chief Executive Officer and our principal financial officer, after evaluating the effectiveness of our disclosure controls and procedures (as defined in the Securities Exchange Act of 1934 Rules 13a-14(c) and 15d-14(c) as of the filing date of this report on Form 10-QSB (the Evaluation Date), have concluded that our disclosure controls and procedures were adequate and



## Edgar Filing: BRAVO FOODS INTERNATIONAL CORP - Form 10QSB

effective to ensure that material information relating to the Company and our consolidated subsidiary would be made known to them by others within those entities, particularly during the period in which this report on Form 10-QSB was being prepared.

b) Changes in Internal Controls. There were no changes in our internal controls or in other factors that could significantly affect our disclosure controls and procedures subsequent to the Evaluation Date, nor any significant deficiencies or material weaknesses in such disclosure controls and procedures requiring corrective actions. As a result, we took no corrective actions.

### PART II - OTHER INFORMATION

#### Item 2. Changes in Securities and Use of Proceeds

On January 18, 2005, we converted \$35,931 of our April 2004 Convertible Promissory Note into 500,000 shares of common stock pursuant to a January 14, 2005 notice of conversion from Longview Fund LP, at a fixed conversion price of \$0.10. The conversion included \$14,068 of accrued and unpaid interest on the converted amount. We issued the underlying common stock upon conversion pursuant to our SB-2 registration statement, declared effective on August 3, 2004.

On January 19, 2005, we converted \$64,068 of our April 2004 Convertible Promissory Note into 641,387 shares of common stock pursuant to a January 19, 2005 notice of conversion from Longview Fund LP, at a fixed conversion price of \$0.10. The conversion included \$70 of accrued and unpaid interest on the converted amount. We issued the underlying common stock upon conversion pursuant to our SB-2 registration statement, declared effective on August 3, 2004.

On January 31, 2005, we closed a funding transaction with Longview Fund, LP, Longview Equity Fund, LP, Longview International Equity Fund, LP, Alpha Capital Aktiengesellschaft and Whalehaven Funds Limited, five institutional accredited investors, for the issuance and sale to the Subscribers of up to \$2,300,000 of principal amount of promissory notes convertible into shares of our common stock, and Warrants to purchase shares of common stock at 100% coverage of the common stock issuable in accordance with the principal amount of the

24

notes. One Million One Hundred Fifty Thousand Dollars (\$1,150,000) of the purchase price was paid on the initial closing date, and One Million One Hundred Fifty Thousand Dollars (\$1,150,000) of the purchase price will be payable within five (5) business days after the actual effectiveness of an SB-2 Registration Statement as defined in the Subscription Agreement. The initial closing notes were at prime plus 4% interest in the aggregate amount of \$1,150,000, plus five-year Warrants for the purchase of, in the aggregate, 9,200,000 shares of common stock, at the lesser of (i) \$0.16, or (ii) 101% of the closing bid price of the Common Stock as reported by Bloomberg L.P. for the OTC Bulletin Board for the trading day preceding the Closing Date. The notes are convertible into shares of our common stock at \$0.125 per common share. Conversions are limited to a maximum ownership of 9.99% of the underlying common stock at any one time. The notes have a maturity date two years from closing and are payable in twelve equal monthly installments, commencing June 1, 2005. The installment payments consist of principal equal to 1/20th of the initial principal amount which, subject to certain conditions concerning trading volume and price, can be

## Edgar Filing: BRAVO FOODS INTERNATIONAL CORP - Form 10QSB

paid in cash at 103% of the monthly installment, or common stock or a combination of both. The notes have an acceleration provision upon the change in a majority of the present Board of Directors except as the result of the death of one or more directors, or a change in the present CEO. In connection with this transaction, we issued restricted common stock in the aggregate amount of 460,000 shares plus the aggregate cash amount of \$57,500 for due diligence fees to the investors in this transaction

On February 14, 2005, we converted \$41,666 of our June 2004 Convertible Promissory Note into 430,327 shares of restricted common stock pursuant to a February 9, 2005 notice of conversion from Longview Fund LP, at a fixed conversion price of \$0.15. The conversion included \$22,882 of accrued and unpaid interest on the converted amount. We issued the Convertible Promissory Note and the underlying common stock upon conversion to an accredited investor, pursuant to a Regulation D offering. The underlying common stock is registered pursuant to a Form SB-2 registration statement declared effective April 19, 2005.

On February 16, 2005, we converted \$25,000 of our November 2003 Convertible Promissory Note into 549,340 shares of common stock pursuant to a February 15, 2005 notice of conversion from Gamma Opportunity Capital Partners LP, at a fixed conversion price of \$0.05. The conversion included \$2,467 of accrued and unpaid interest on the converted amount. We issued the underlying common stock upon conversion pursuant to a Form SB-2 registration statement, declared effective on August 3, 2004.

On March 23, 2005, we converted \$50,000 of our November 2003 Convertible Promissory Note into 1,106,740 shares of common stock pursuant to a March 22, 2005 notice of conversion from Gamma Opportunity Capital Partners LP, at a fixed conversion price of \$0.05. The conversion included \$5,337 of accrued and unpaid interest on the converted amount. We issued the underlying common stock upon conversion pursuant to a Form SB-2 registration statement, declared effective on August 3, 2004.

### Subsequent Events

On April 14, 2005, we issued 750,000 shares of our common stock to Geoffrey Eiten, for services rendered for strategic business planning. These shares were part of 1,500,000 shares of

25

the Company's common stock registered under a Form S-8 registration statement filed December 23, 2004.

On April 18, 2005, we issued 250,000 shares of our common stock to Geoffrey Eiten, for services rendered for strategic business planning. These shares were part of 1,500,000 shares of the Company's common stock registered under a Form S-8 registration statement filed December 23, 2004.

On April 21, 2005, we closed a funding transaction with Alpha Capital Aktiengesellschaft for the issuance of convertible a 10% note in the aggregate amount of \$300,000. The promissory note is convertible into shares of common stock of the Company at \$0.20 per common share. Conversions are limited to a maximum ownership of 9.99% of the Company's common stock at any one time. The note has an October 31, 2005 maturity and is payable in five equal monthly installments, commencing June 1, 2005. The installment payments consist of principal (equal to 1/5th of the initial principal amount) plus accrued interest. Installments can be paid in cash or common stock valued at the average closing price of the Company's common

## Edgar Filing: BRAVO FOODS INTERNATIONAL CORP - Form 10QSB

stock during the five trading days immediately preceding the relevant installment due date. The Company has repriced Class B Warrants issued on June 30, 2004 from \$2.00 per share to \$0.125 per share, and issued restricted common stock in the aggregate amount of 93,750 shares for finder's fees to a third party to facilitate this transaction. The Company has the right to prepay the promissory note by paying to the holder cash equal to 120% of the principal to be prepaid plus accrued interest. The notes have an acceleration provision upon the change in a majority of the present Board of Directors except as the result of the death of one or more directors, or a change in the present CEO of the Company. The common stock underlying the note and the finder's fee common stock have "piggy back" registration rights. We issued the convertible note and finder's fee common stock to accredited investors, pursuant to a Regulation D offering.

On April 22, 2005, we converted \$15,000 of our December 2004 Convertible Promissory Note into 154,930 shares of common stock pursuant to an April 19, 2005 notice of conversion from Momona Capital Corp., at a fixed conversion price of \$0.10 per share. The conversion included \$493 of accrued and unpaid interest on the converted amount. We issued the underlying common stock upon conversion pursuant to a Form SB-2 registration statement, declared effective on April 18, 2005.

On April 23, 2005, we converted \$20,000 of our December 2004 Convertible Promissory Note into 200,000 shares of common stock pursuant to an April 22, 2005 notice of conversion from Ellis International Ltd. Inc., at a fixed conversion price of \$0.10 per share. The conversion did not include interest on the converted amount. We issued the underlying common stock upon conversion pursuant to a Form SB-2 registration statement, declared effective on April 18, 2005.

On April 29, 2005, we converted \$15,000 of our December 2004 Convertible Promissory Note into 155,137 shares of common stock pursuant to an April 27, 2005 notice of conversion from Momona Capital Corp., at a fixed conversion price of \$0.10 per share. The conversion included \$513.70 of accrued and unpaid interest on the converted amount. We issued the underlying common stock upon conversion pursuant to a Form SB-2 registration statement, declared effective on April 18, 2005.

26

On April 29, 2005, we converted \$20,000 of our December 2004 Convertible Promissory Note into 300,000 shares of common stock pursuant to an April 28, 2005 notice of conversion from Ellis International Ltd. Inc., at a fixed conversion price of \$0.10 per share. The conversion did not include interest on the converted amount. We issued the underlying common stock upon conversion pursuant to a Form SB-2 registration statement, declared effective on April 18, 2005.

On April 29, 2005, we converted \$10,000 of our December 2004 Convertible Promissory Note into 103,479 shares of common stock pursuant to an April 29, 2005 notice of conversion from Momona Capital Corp., at a fixed conversion price of \$0.10 per share. The conversion included \$347.90 of accrued and unpaid interest on the converted amount. We issued the underlying common stock upon conversion pursuant to a Form SB-2 registration statement, declared effective on April 18, 2005.

Item 6. Exhibits

Exhibits - Required by Item 601 of Regulation S-B:

Edgar Filing: BRAVO FOODS INTERNATIONAL CORP - Form 10QSB

No. 31: Rule 13a-14(a) / 15d-14(a) Certifications

No. 32: Section 1350 Certifications

27

SIGNATURES

In accordance with the requirements of the Exchange Act of 1934, the registrant caused this report to be signed on its behalf of the undersigned, duly authorized.

BRAVO! FOODS INTERNATIONAL CORP.

(Registrant)

Date: May 10, 2005

/s/Roy G. Warren

Roy G. Warren, Chief Executive Officer

In accordance with the Securities Exchange Act of 1934, Bravo! Foods International Corp. has caused this amended report to be signed on its behalf by the undersigned in the capacities and on the dates stated.

| Signature<br>----- | Title<br>-----                          | Date<br>---- |
|--------------------|---|--------------|
| /S/ Roy G. Warren  | Chief Executive Officer<br>and Director | May 10, 2005 |
| /S/ Tommy E. Kee   | Chief Financial Officer                 | May 10, 2005 |

28