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BRAVO FOODS INTERNATIONAL CORP
Form 10QSB
November 15, 2004

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 September 30, 2004

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

Commission File Number 0-20549

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

formerly
China Premium Food Corporation

Delaware 62-1681831
(State or other jurisdiction of (I.R.S. Employer
incorporation or organization) 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 |
|-------------------|--------------|--------------------|
| November 12, 2004 | Common Stock | 46,201,792 |

Transitional Small Business Disclosure Format (Check One) YES NO

BRAVO! FOODS INTERNATIONAL CORP.

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BRAVO! FOODS INTERNATIONAL CORP. AND SUBSIDIARY

CONSOLIDATED BALANCE SHEETS

| | December 31, 2003 | September 30, 2004 |
|---|----------------------|-----------------------|
| | ----- | ----- |
| | | (Unaudited) |
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 58,859 | \$ 58,263 |
| Accounts receivable - net | 25,921 | 34,411 |
| Other receivables | 6,331 | 6,331 |
| Inventories | 54,995 | 75,686 |
| Prepaid expenses | 201,617 | 468,694 |
| | ----- | ----- |
| Total current assets | 347,723 | 643,385 |
| Furniture and equipment, net | 68,623 | 95,586 |
| License rights, net of accumulated amortization | 24,065 | 114,204 |
| Deferred product development costs | 41,711 | 174,541 |
| Deposits | 10,736 | 14,982 |

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| | | |
|-------------------------------------|------------|--------------|
| Total assets | \$ 492,858 | \$ 1,042,698 |
| | ===== | ===== |
| Liabilities and Capital Deficit | | |
| Current liabilities: | | |
| Note payable to International Paper | \$ 187,743 | \$ 187,743 |
| Notes payable to Alpha Capital | 100,000 | 120,328 |
| Note payable to Mid-Am Capital LLC | 150,000 | 62,559 |
| Note payable to Libra Finance | - | 29,166 |
| Note payable to Longview | - | 14,148 |
| Note payable to Stonestreet | - | 10,568 |
| Note payable to Whalehaven | - | 1,951 |
| Note payable to Bi-Coastal | - | 29,166 |
| Note payable to Gem Funding | - | 3,334 |
| Note payable to Warner Brothers | 147,115 | 147,115 |
| Accounts payable | 2,123,705 | 1,491,043 |
| Accrued liabilities | 610,665 | 1,019,295 |
| | ----- | ----- |
| Total current liabilities | 3,319,228 | 3,116,416 |
| Dividends payable | 582,823 | 831,207 |
| Other notes payable | 310,098 | 203,683 |
| | ----- | ----- |
| Total liabilities | 4,212,149 | 4,151,306 |
| | ----- | ----- |

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BRAVO! FOODS INTERNATIONAL CORP. AND SUBSIDIARY

CONSOLIDATED BALANCE SHEETS

| | December 31, 2003 | September 30, 2004 |
|---|----------------------|-----------------------|
| | ----- | ----- |
| 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, 130,515 and 75,515 shares issued and outstanding | 1,205,444 | 697,461 |
| Series G convertible, 8% cumulative and redeemable preferred stock, stated | | |

(Unaudited)

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| | | |
|---|--------------|--------------|
| value \$10.00 per share, 58,810 shares issued and outstanding in 2003 | 520,604 | - |
| 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 preferred stock, stated value \$10.00 per share, 30,000 shares issued and outstanding | 72,192 | 72,192 |
| Series J convertible, 8% cumulative and redeemable preferred stock, stated value \$10.00 per share, 200,000 shares issued and outstanding | 1,854,279 | 1,854,279 |
| Series K convertible, 8% cumulative and redeemable preferred stock, stated value \$10.00 per share, 95,000 shares issued and outstanding | - | 950,000 |
| Common stock, par value \$0.001 per share, 300,000,000 shares authorized, 28,047,542 and 44,951,792 shares issued and outstanding | 28,045 | 44,949 |
| Additional paid-in capital | 21,144,896 | 25,259,456 |
| Accumulated deficit | (29,548,471) | (32,990,665) |
| Translation adjustment | 689 | 689 |
| | ----- | ----- |
| Total capital deficit | (3,719,291) | (3,108,608) |
| | ----- | ----- |
| Total liabilities and capital deficit | \$ 492,858 | \$ 1,042,698 |
| | ===== | ===== |

See accompanying notes.

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BRAVO! FOODS INTERNATIONAL CORP. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF OPERATIONS

| | Nine Months Ended September 30, 2003 | 2004 | Three Months 2003 |
|---------------------------|---|--------------|----------------------|
| | (unaudited) | (unaudited) | (unaudited) |
| Revenue - unit sales | \$ 336,644 | \$ 2,236,383 | \$ 110,584 |
| Revenue - net kit sales | 2,737 | - | - |
| Revenue - gross kit sales | 747,056 | 468,609 | 223,953 |
| | ----- | ----- | ----- |
| Total revenue | 1,086,437 | 2,704,992 | 334,537 |
| Cost of sales | (176,008) | (1,893,834) | (53,473) |
| | ----- | ----- | ----- |
| Gross margin | 910,429 | 811,158 | 281,064 |
| Selling expenses | 1,037,914 | 1,270,042 | 357,384 |
| Product development | 7,788 | 55,104 | 6,134 |

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| | | | |
|--|----------------|----------------|--------------|
| General and administrative expense | 1,769,252 | 2,213,326 | 478,121 |
| | ----- | ----- | ----- |
| Loss from operations | (1,904,525) | (2,727,314) | (560,575) |
| Other (income) expense | | | |
| Interest expense | 7,500 | 154,817 | 3,421 |
| | ----- | ----- | ----- |
| Loss before income taxes | (1,912,025) | (2,882,131) | (563,996) |
| Provision for income taxes | - | - | - |
| | ----- | ----- | ----- |
| Net loss | (1,912,025) | (2,882,131) | (563,996) |
| Dividends accrued for Series B preferred stock | (7,232) | (7,259) | (2,437) |
| Dividends accrued for Series G preferred stock | (34,598) | (15,633) | (7,192) |
| Dividends accrued for Series H preferred stock | (91,617) | (86,967) | (30,697) |
| Dividends accrued for Series I preferred stock | (17,951) | (18,017) | (6,049) |
| Dividends accrued for Series J preferred stock | (98,631) | (120,109) | (40,329) |
| Deemed dividend for Series J preferred stock | (367,211) | - | - |
| Dividends accrued for Series K preferred stock | - | (43,475) | - |
| | ----- | ----- | ----- |
| Net loss applicable to common shareholders | \$ (2,529,265) | \$ (3,173,591) | \$ (650,700) |
| | ===== | ===== | ===== |
| Weighted average number of common shares outstanding | 26,425,063 | 38,254,305 | 27,382,453 |
| | ===== | ===== | ===== |
| Basic and diluted loss per share | \$ (0.10) | \$ (0.08) | \$ (0.02) |
| | ===== | ===== | ===== |
| Comprehensive loss and its components consist of the following: | | | |
| Net loss | \$ (1,912,025) | \$ (2,882,131) | \$ (563,996) |
| Foreign currency translation adjustment | (144) | - | 128 |
| | ----- | ----- | ----- |
| Comprehensive loss | \$ (1,912,169) | (2,882,131) | \$ (563,868) |
| | ===== | ===== | ===== |

See accompanying notes.

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BRAVO! FOODS INTERNATIONAL CORP. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS

| | Nine Months Ended 2003 | September 30, 2004 |
|--|---------------------------|-----------------------|
| | ----- | ----- |
| | (unaudited) | (unaudited) |
| Cash flows from operating activities: | | |
| Net loss | \$ (1,912,025) | \$ (2,882,131) |
| Adjustments to reconcile net loss to net cash used in operating activities: | | |
| Depreciation and amortization | 74,843 | 248,995 |
| Stock issuance for compensation and finder's fee | 28,000 | 116,000 |

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| | | |
|--|-------------|-------------|
| Registration costs for financing | - | (20,108) |
| Loss on disposal of fixed assets | 15,853 | - |
| Increase (decrease) from changes in: | | |
| Accounts receivable | 132,635 | (8,490) |
| Other receivable | (93,100) | - |
| Advance to vendors | 8,719 | - |
| Inventories | (44) | (20,691) |
| Prepaid expenses | (101,943) | (271,323) |
| Accounts payable and accrued expenses | 728,498 | (224,031) |
| Deferred product development costs | - | (331,169) |
| | ----- | ----- |
| Net cash used in operating activities | (1,118,564) | (3,392,948) |
| | ----- | ----- |
| Cash flows from investing activities: | | |
| Purchase of equipment | (31,362) | (47,647) |
| | ----- | ----- |
| Net cash used in investing activities | (31,362) | (47,647) |
| | ----- | ----- |
| Cash flows from financing activities: | | |
| Proceeds of Series J preferred stock | 1,000,000 | - |
| Proceeds of Series K preferred stock | 150,000 | 950,000 |
| Convert account payable into note payable | - | 1,128,386 |
| Convertible notes payable | - | 2,639,999 |
| Payment of note payable, bank loan and license fee payable | (122,938) | (1,278,386) |
| | ----- | ----- |
| Net cash provided by financing activities | 1,027,062 | 3,439,999 |
| | ----- | ----- |
| Effect of changes in exchange rates on cash | (144) | - |
| | ----- | ----- |
| Net (decrease) in cash and cash equivalents | (123,008) | (596) |
| Cash and cash equivalents, beginning of period | 224,579 | 58,859 |
| | ----- | ----- |
| Cash and cash equivalents, end of period | \$ 101,571 | \$ 58,263 |
| | ===== | ===== |

See accompanying notes.

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BRAVO! FOODS INTERNATIONAL CORP. AND SUBSIDIARY
 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 China Premium Food Corp (Shanghai) Co., 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.

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

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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 September 30, 2004 are not necessarily indicative of the results that may be expected for the year ending December 31, 2004. 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, 2003.

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 \$32,990,665, a capital deficit of \$3,108,608, negative working capital of \$2,473,031 and is delinquent on certain of its debts at September 30, 2004. Further, the Company's auditors stated in their report on the Company's Consolidated Financial Statements for the year ended December 31, 2003, 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 launch of four new product 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 \$3,590,000 in the first three quarters 2004. 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, 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

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

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.

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

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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 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 of 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. 101. 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-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

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

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 following table illustrates the effect on net loss and loss per share as if the Company had applied the fair value recognition provision of SFAS No. 123 to stock-based employee compensation.

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| | Nine Months Ended September 30, | |
|--|------------------------------------|---------------|
| | 2003 | 2004 |
| Net loss applicable to common shareholders as reported: | \$(2,529,265) | \$(3,173,591) |
| Add: total stock based employee compensation expense determined under fair value method for all awards | (4,500) | - |
| Pro forma net loss | \$(2,533,765) | \$(3,173,591) |
| | ===== | ===== |
| Loss per share: | | |
| As reported | \$ (0.10) | \$ (0.08) |
| Pro forma | \$ (0.10) | \$ (0.08) |

Note 2 - Transactions in Capital Deficit

On February 1, 2004, the Company agreed to issue 750,000 shares of its common stock and warrants to purchase an additional 750,000 shares of common stock to Marvel Enterprises, Inc. The Company issued its equity in connection with the grant of an intellectual property license by Marvel on January 17, 2004, giving the Company the right to use certain Marvel Comics characters on the Company's Slammers(R) line of flavored milks. The warrants have an exercise price of \$0.10 per share for the first year and, upon the occurrence of certain conditions tied to the royalty performance under the license, can be extended for an additional year with an exercise price of \$0.14 per share. The Company made this private offering to Marvel Enterprises, an accredited investor, pursuant to Rule 506 of Regulation D and Section 4(2) of the Securities Act of 1933.

On February 12, 2004, the Company held a special meeting of shareholders at which the shareholders approved an increase of the Company's authorized common stock from 50,000,000 shares to 300,000,000 shares.

On February 17, 2004, the Company converted 875 shares of Series G Convertible Preferred Stock into 215,164 shares of common stock pursuant to a January 12, 2004 notice of conversion from Neshor, LP, at a conversion price of \$0.0407. The conversion did not include accrued and unpaid dividends on the converted preferred. The Company and the holder delayed processing this notice in light of the Company's special meeting of shareholders held February 12, 2004. The shares of common stock issued pursuant to this conversion were retired and cancelled on March 5, 2004 and issued to third parties on that date in accordance with the instructions of Neshor, LP.

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On February 17, 2004, the Company converted 1,400 shares of Series G Convertible Preferred Stock into 343,980 shares of common stock pursuant to a January 12, 2004 notice of conversion from Talbiya Investments, Ltd., at a conversion price of \$0.0407. The conversion did not include accrued and unpaid dividends on the converted preferred. The Company and the holder delayed processing this notice in light of the Company's special meeting of shareholders held February 12, 2004. The shares of common stock issued pursuant to this conversion were retired and cancelled on March 5, 2004 and issued to third parties on that date in accordance with the instructions of Talbiya Investments, Ltd.

On February 17, 2004, the Company converted 700 shares of Series G Convertible Preferred Stock into 172,162 shares of common stock pursuant to a January 12, 2004 notice of conversion from The Keshet Fund, LP, at a conversion price of \$0.0407. The conversion did not include accrued and unpaid dividends on the converted preferred. The Company and the holder delayed processing this notice in light of the Company's special meeting of shareholders held February 12, 2004. The shares of common stock issued pursuant to this conversion were retired and cancelled on March 5, 2004 and issued to third parties on that date in accordance with the instructions of The Keshet Fund, LP.

On February 17, 2004, the Company converted 2,025 shares of Series G Convertible Preferred Stock into 497,951 shares of common stock pursuant to a January 12, 2004 notice of conversion from Keshet LP, at a conversion price of \$0.0407. The conversion did not include accrued and unpaid dividends on the converted preferred. The Company and the holder delayed processing this notice in light of the Company's special meeting of shareholders held February 12, 2004. The shares of common stock issued pursuant to this conversion were retired and cancelled on March 5, 2004 and issued to third parties on that date in accordance with the instructions of Keshet, LP.

On March 1, 2004, the Company issued 80,000 shares of non-voting Series K 8% Convertible Preferred stock, to Mid-Am Capital, LLC, having a stated value of \$10.00 per Preferred K share, for the aggregate purchase price of \$800,000. Each preferred share is convertible to 100 shares of the Company's common stock at a conversion price of \$0.10, representing 8,000,000 shares of common stock underlying the preferred. In addition, the following adjustments were made to prior issued warrants for the purpose of facilitating future fund raising by the Company arising out of the exercise of the warrants by the holder. The purchase price, as defined in the Warrant No. 2003-B-002, has been reduced to \$0.10, subject to further adjustment as described in the warrant. The expiration date, as defined in the warrant, remains as stated. This private offering was made to Mid-Am, an accredited investor, pursuant to Rule 506 of Regulation D and Section 4(2) of the Securities Act of 1933.

On March 1, 2004, the Company issued 750,000 shares of its common stock to Knightsbridge in compensation for services to be rendered, pursuant to a November 2003 engagement letter with Knightsbridge Holdings, LLC for business and operational consulting services. The Company delayed the issuance of these shares owing to the necessity of a special meeting of shareholders to increase the Company's authorized shares, which took place in

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

February 2004. On March 1, 2004, Knightsbridge commenced its services and the Company issued the shares of common stock.

On March 9, 2004, the Company converted 5,000 shares of Series F Convertible Preferred Stock into 1,315,789 shares of common stock pursuant to a January 8, 2004 notice of conversion from Esquire Trade & Finance Inc., at a conversion price of \$0.038. The conversion did not include accrued and unpaid dividends on the converted preferred. The Company and the holder delayed processing this notice in light of the Company's special meeting of shareholders held February 12, 2004. The shares of common stock issued pursuant to this conversion were issued to third parties in accordance with the instructions of Esquire Trade & Finance Inc.

On April 1 2004, the Company converted 5,000 shares of Series F Convertible Preferred Stock into 1,315,789 shares of common stock pursuant to a January 27, 2004 notice of conversion from Austinvest Anstalt Balzers, at a conversion price of \$0.038. The conversion did not include accrued and unpaid dividends on the converted preferred. The Company and the holder delayed processing this notice in light of the Company's special meeting of shareholders held February 12, 2004. The shares of common stock issued pursuant to this conversion were issued to third parties on that date in accordance with the instructions of Austinvest Anstalt Balzers. The Company issued the preferred and the underlying common stock upon conversion to an accredited investor, pursuant to a Regulation D offering.

On April 2, 2004, the Company and Mid-Am Capital, LLC entered into Supplement No.1 to the Series K Convertible Preferred Subscription Agreement, by which the Company sold an additional 15,000 shares of its Series K Convertible Preferred Stock utilizing the proceeds from a certain promissory note issued by the Company to Mid-Am in the face amount of \$150,000. With the consummation of this sale, the \$150,000 promissory note was deemed paid in full by the Company. The Company issued the preferred and the underlying common stock upon conversion to an accredited investor, pursuant to a Regulation D offering.

On April 8, 2004, the Company converted 4,862 shares of Series G Convertible Preferred Stock into 700,000 shares of common stock pursuant to a March 25, 2004 notice of conversion from Neshor, LP, at a conversion price of \$0.0853. The conversion included accrued and unpaid dividends of \$11,089 on the preferred converted. The Company issued the preferred and the underlying common stock upon conversion to an accredited investor, pursuant to a Regulation D offering.

On April 8, 2004, the Company converted 4,478 shares of Series G Convertible Preferred Stock into 650,000 shares of common stock pursuant to a March 25, 2004 notice of conversion from Talbiya B. Investments, Ltd., at a conversion price of \$0.0853. The conversion included accrued and unpaid dividends of \$10,662 on the preferred converted. The Company issued the preferred and the underlying common stock upon conversion to an accredited investor, pursuant to a Regulation D offering.

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On April 8, 2004, the Company converted 1,919 shares of Series G Convertible Preferred Stock into 275,000 shares of common stock pursuant to a March 25, 2004 notice of conversion from The Keshet Fund, LP, at a conversion price of \$0.0853. The conversion included accrued and unpaid dividends of \$4,265 on the preferred converted. The Company issued the preferred and the underlying common stock upon conversion to an accredited investor, pursuant to a Regulation D offering.

On April 8, 2004, the Company converted 7,677 shares of Series G Convertible Preferred Stock into 1,100,000 shares of common stock pursuant to a March 25, 2004 notice of conversion from Keshet, LP, at a conversion price of \$0.0853. The conversion included accrued and unpaid dividends of \$17,060 on the preferred converted. The Company issued the preferred and the underlying common stock upon conversion to an accredited investor, pursuant to a Regulation D offering.

On April 20, 2004, the Company entered into a Subscription Agreement with Longview Fund, LP and Alpha Capital Aktiengesellschaft for the issuance of two convertible 10% notes in the amount of \$250,000 each and five-year warrants for the purchase of, in the aggregate, 3,000,000 shares of common stock, at \$0.15 per share. The notes are convertible into shares of common stock of the Company at \$0.10 per common share. Conversions are limited to a maximum ownership of 9.99% of the underlying common stock at any one time. The notes are payable in twelve equal monthly installments, commencing November 1, 2004. The installment payments consist of principal and a "premium" of 20% of the principal paid per installment. The Company has the option to defer such payment until the note's maturity date on October 1, 2005, if the Company's 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, the Company issued two additional notes in the aggregate amount of \$50,000, upon identical terms as the principal notes, as a finder's fee, and paid \$20,000 in legal fees. The common stock underlying all notes and warrants carry registration rights. The Company issued the convertible notes and warrants to accredited investors, pursuant to a Regulation D offering.

On April 30, 2004, the Company converted 20,000 shares of Series F Convertible Preferred Stock into 1,945,525 shares of common stock pursuant to an April 27, 2004 notice of conversion from Esquire Trade & Finance Inc., at a conversion price of \$0.1028. The Company issued the preferred and the underlying common stock upon conversion to an accredited investor, pursuant to a Regulation D offering.

On April 30, 2004, the Company converted 20,000 shares of Series F Convertible Preferred Stock into 1,945,525 shares of common stock pursuant to an April 27, 2004 notice of conversion from Austinvest Anstalt Balzers, at a conversion price of \$0.1028. The Company issued the preferred and the underlying common stock upon conversion to an accredited investor, pursuant to a Regulation D offering.

On April 30, 2004, the Company converted 2,500 shares of Series F Convertible Preferred Stock into 243,191 shares of common stock pursuant to an April 27, 2004 notice of

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conversion from Esquire Trade & Finance Inc., at a conversion price of \$0.1028. The Company issued the preferred and the underlying common stock upon conversion to an accredited investor, pursuant to a Regulation D offering.

On April 30, 2004, the Company converted 2,500 shares of Series F Convertible Preferred Stock into 243,191 shares of common stock pursuant to an April 27, 2004 notice of conversion from Austinvest Anstalt Balzers, at a conversion price of \$0.1028. The Company issued the preferred and the underlying common stock upon conversion to an accredited investor, pursuant to a Regulation D offering.

On May 20, 2004, the Company converted 9,226 shares of Series G Convertible Preferred Stock into 620,578 shares of common stock pursuant to a May 19, 2004 notice of conversion from Neshet, LP, at a conversion price of \$0.148. The conversion did not include accrued and unpaid dividends on the converted preferred. The Company issued the preferred and the underlying common stock upon conversion to an accredited investor, pursuant to a Regulation D offering.

On May 20, 2004, the Company converted 13,972 shares of Series G Convertible Preferred Stock into 939,782 shares of common stock pursuant to a May 19, 2004 notice of conversion from Keshet, LP, at a conversion price of \$0.148. The conversion did not include accrued and unpaid dividends on the converted preferred. The Company issued the preferred and the underlying common stock upon conversion to an accredited investor, pursuant to a Regulation D offering.

On June 17, 2004, the Company issued 87,195 of its common stock to Stephen Nollau, a former consultant, for services rendered. The Company issued the common stock pursuant to a Form S-8 registration statement, filed by the Company on June 16, 2004.

On June 29, the Company converted 234 shares of Series G Convertible Preferred Stock into 13,604 shares of common stock pursuant to a June 15, 2004 notice of conversion from Neshet, LP, at a conversion price of \$0.172. The conversion did not include accrued and unpaid dividends on the converted preferred. The Company issued the preferred and the underlying common stock upon conversion to an accredited investor, pursuant to a Regulation D offering. This conversion exhausted the outstanding Series G convertible preferred.

On June 29, the Company converted 1,850 shares of Series G Convertible Preferred Stock into 107,558 shares of common stock pursuant to a June 15, 2004 notice of conversion from Keshet, LP, at a conversion price of \$0.172. The conversion did not include accrued and unpaid dividends on the converted preferred. The Company issued the preferred and the underlying common stock upon conversion to an accredited investor, pursuant to a Regulation D offering. This conversion exhausted the outstanding Series G convertible preferred.

On June 29, the Company converted 3,472 shares of Series G Convertible Preferred Stock into 201,860 shares of common stock pursuant to a June 15, 2004 notice of conversion

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from The Keshet Fund, LP, at a conversion price of \$0.172. The conversion did not include accrued and unpaid dividends on the converted preferred. The Company issued the preferred and the underlying common stock upon conversion to an accredited investor, pursuant to a Regulation D offering. This conversion exhausted the outstanding Series G convertible preferred.

On June 29, the Company converted 8,091 shares of Series G Convertible Preferred Stock into 470,406 shares of common stock pursuant to a June 15, 2004 notice of conversion from Talbiya B. Investments, Ltd, at a conversion price of \$0.172. The conversion did not include accrued and unpaid dividends on the converted preferred. The Company issued the preferred and the underlying common stock upon conversion to an accredited investor, pursuant to a Regulation D offering. This conversion exhausted the outstanding Series G convertible preferred.

On June 30, 2004, the Company entered into Subscription Agreements 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. The notes are convertible into shares of common stock of the Company at \$0.15 per common share. Conversions are limited to a maximum ownership of 9.99% of the underlying common stock at any one time. 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. The Company has the option to defer such payment until the note's maturity date on December 1, 2005, if the Company's 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, the Company 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 Company issued the convertible notes and warrants to accredited investors, pursuant to a Regulation D offering.

On August 9, 2004, the Company converted \$50,000 of its November 2003 Convertible Promissory Note into 1,000,000 shares of common stock pursuant to an August 5, 2004 notice of conversion from Gamma Opportunity Capital Partners LP, at a fixed conversion price of \$0.05. The conversion did not include accrued and unpaid interest on the converted amount. The Company issued the underlying common stock upon conversion pursuant to the Company's SB-2 registration statement, declared effective on August 3, 2004.

On August 23, 2004, the Company converted \$50,000 of its April 2004 Convertible Promissory Note into 500,000 shares of common stock pursuant to an August 5, 2004 notice of conversion from Longview Fund LP, at a fixed conversion price of \$0.10. The conversion did

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not include accrued and unpaid interest on the converted amount. The Company issued the underlying common stock upon conversion pursuant to the Company's SB-2 registration statement, declared effective on August 3, 2004.

On September 27, 2004, the Company converted \$50,000 of its April 2004 Convertible Promissory Note into 500,000 shares of common stock pursuant to a September 21, 2004 notice of conversion from Longview Fund LP, at a fixed conversion price of \$0.10. The conversion did not include accrued and unpaid interest on the converted amount. The Company issued the underlying common stock upon conversion pursuant to the Company's 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 eleven Middle Eastern countries.

Note 4 - Subsequent Events

On October 6, 2004, the Company converted \$20,000 of its November 2003 Convertible Promissory Note into 500,000 shares of common stock pursuant to a September 23, 2004 notice of conversion from Gamma Opportunity Capital Partners LP, at a fixed conversion price of \$0.05. The conversion did not include accrued and unpaid interest on the converted amount. The Company issued the underlying common stock upon conversion pursuant to the Company's SB-2 registration statement, declared effective on August 3, 2004.

On October 6, 2004, the Company issued 500,000 shares of its common stock to Knightsbridge Holdings, LLC, pursuant to a consulting agreement dated November 10, 2003. The Company issued the underlying common stock pursuant to the Company's SB-2 registration statement, declared effective on August 3, 2004. The issued and outstanding equity reported in the Company's Form 10QSB for the period ended March 31, 2004 reflects these shares of common stock.

On October 13, 2004, the Company issued 250,000 shares of its common stock in a private placement to Arthur Blanding, at the market price of \$0.12 per share, pursuant to Section

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4(2) of the Securities Act of 1934. Mr. Blanding, who solicited the purchase, is an accredited investor and has been a director of the Company since 1999.

On October 15, 2004, the Company issued 750,000 shares of its common stock to Marvel Enterprises, Inc., as partial compensation under a license agreement dated February 1, 2004. The Company issued the underlying common stock pursuant to the Company's SB-2 registration statement, declared effective on August 3, 2004. The issued and outstanding equity reported in the Company's Form 10QSB for the period ended March 31, 2004 reflects these shares of common stock.

On October 29, 2004, the Company 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 of the Company at \$0.10 per common share. Conversions are limited to a maximum ownership of 9.99% of the underlying common stock at any one time. 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. The Company has the option to defer such payment until the note's maturity date on April 30, 2006, if the Company's 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, the Company 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 Company issued the convertible notes and warrants to accredited investors, pursuant to a Regulation D offering.

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS - NINE MONTHS ENDED SEPTEMBER 30, 2004

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 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

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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 \$2,882,131 for the nine-month period ended September 30, 2004, with a net loss of \$1,120,992 for the three months ended September 30, 2004. As shown in the accompanying financial statements, the Company has suffered operating losses and negative cash flows from operations since inception and at September 30, 2004 has an accumulated deficit, a capital deficit, is delinquent on certain debts and has negative working capital. 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.

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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 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

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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 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. Currently, there is one vacancy on the compensation committee.

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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 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

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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.

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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. 101.

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 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

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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 September 30, 2004

As of September 30, 2004, we had an accumulated deficit of \$32,990,665, cash on hand of \$58,263 and reported total capital deficit of \$3,108,608.

For this same period of time, we had revenue of \$2,704,992 and general and administrative expense of \$2,213,326.

After interest expenses of \$154,817, cost of goods sold of \$1,893,834, product development costs of \$55,104 and selling expenses of \$1,270,042 incurred in the operations of the Company, we had a net loss of \$2,882,131.

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Nine Months Ended September 30, 2004 Compared to Nine Months Ended

September 30, 2003

Consolidated Revenue

We had revenues for the nine months ended September 30, 2004 of \$2,704,992, with cost of sales of \$1,893,834, resulting in a gross margin of \$811,158. This revenue and resultant gross margin is net of slotting fees, promotional discounts and marketing allowances for this period in the amount of \$126,469. Of the reported \$2,704,992, U.S. sales accounted for \$2,301,844 with an additional \$403,148 from international sales. We did not have revenue in 2004 in Canada or for the three months ended September 30, 2004 in the Middle East. Our reported revenue for the nine months ended September 30, 2004 increased by \$1,618,555, a 148.98% increase compared to revenue of \$1,086,437 for the same period in 2003. This increase is the result of a change in the Company's method of revenue recognition in the United States, commencing January 1, 2004, when the Company began to act as the principal in these transactions, rather than as an agent. In addition, in the first quarter of 2004, the Company began to phase out its Looney Tunes(TM) flavored milk products and to develop four new branded product lines in the United States, including the launch of the Company's Slammers(R) line of Marvel Comics Super Heroes(TM) branded flavored milks during the second quarter 2004. The Company also began to ship kits to its third-party Middle East dairy processor during the second

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quarter 2004.

Consolidated Cost of Sales

We incurred cost of goods sold of \$1,893,834 for the nine months ended September 30, 2004, \$1,820,432 of which was incurred in our U.S. business, and \$73,402 in connection with out international sales. Cost of goods sold in 2004 increased by \$1,717,826, a 975.99% increase compared to \$176,008 for the same period in 2003. The increase in cost of goods sold reflects an increase in sales, the change in the Company's role from agent to principal during this period and the concomitant increase in reported cost of goods sold associated with that change.

In countries except the United States, the Company's 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 the Company's revenue recognition policies, the Company recognizes the full invoiced kit price as revenue, less the cost of production charged by the processor, which the Company records as cost of goods sold.

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. The Company reports 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,

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revenues for the period ended September 30, 2004 were generated by kit sales to third party processors. The Company's revenue from the sale of finished product to retail outlets is recorded as "unit sales" on the following table.

| Nine Months Ended September 30, 2004 | United States ----- | Canada ----- | Mexico ----- | Middle East ----- | Total Company ----- |
|---|------------------------|-----------------|-----------------|----------------------|---------------------------|
| Revenue - unit sales | \$ 2,236,383 | \$ - | \$ - | \$ - | \$2,236,383 |
| Revenue - gross kit sales | 65,461 | - | 83,518 | 319,630 | 468,609 |
| | ----- | ----- | ----- | ----- | ----- |
| Total revenue | 2,301,844 | - | 83,518 | 319,630 | 2,704,992 |
| Cost of goods sold | (1,820,432) | - | (31,101) | (42,301) | (1,893,834) |
| | ----- | ----- | ----- | ----- | ----- |
| Gross margin | \$ 481,412 | \$ - | \$ 52,417 | \$ 277,329 | \$ 811,158 |
| | ===== | ===== | ===== | ===== | ===== |

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| Nine Months Ended September 30, 2003 | United States ----- | Canada ----- | Mexico ----- | China ----- | Total Company ----- |
|---|------------------------|-----------------|-----------------|----------------|---------------------------|
| Revenue - unit sales | \$ 336,644 | \$ - | \$ - | \$ - | \$ 336,644 |
| Revenue - net kit sales | 2,737 | - | - | - | 2,737 |
| Revenue - gross kit sales | 556,490 | 43,745 | 111,463 | 35,358 | 747,056 |
| Total revenue | 895,871 | 43,745 | 111,463 | 35,358 | 1,086,437 |
| Cost of goods sold | (111,869) | (10,402) | (35,610) | (18,127) | (176,008) |
| Gross margin | \$ 784,002 | \$ 33,343 | \$ 75,853 | \$ 17,231 | \$ 910,433 |

United States

Revenues for the period ended September 30, 2004 from unit sales in the United States increased from \$336,644 for the same period in 2003 to \$2,236,383 in 2004, a 564% increase. The increase is the result of a change in revenue recognition and the introduction of the Company's new product lines during this period.

In the period ended September 30, 2004, the Company's gross margin for U.S. sales of \$481,412, decreased by \$302,590, or by 38.6%, from \$784,002 for the same period in 2003. The decrease in gross margin was the result of the Company's role change from agent to principal in its US sales transactions, which required the Company to recognize the entire cost of production of its milk products against revenues from the wholesale sales for those products.

Foreign Sales

Revenues for the period ended September 30, 2004 from kit sales in foreign countries increased from \$190,566 for the same period in 2003 to \$403,148, a 111.6 % increase. The increase is the result of sales growth in Mexico during this period.

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The Company recorded \$73,402 in costs of kit sales in foreign countries for the period ended September 30, 2004, an increase of \$9,263 or 14.4% from \$64,139 for the same period in 2003. As a percentage of sales, the costs of goods sold decreased to 18.21% for the period ended September 30, 2004, from 33.7% for the same period in 2003. The reduction of cost of goods sold as a percentage of sales was the result of greater efficiencies of shipment and lower costs in sourcing the product ingredients in Europe, rather than the United States.

For the period ended September 30, 2004, the Company's gross profit of \$329,746 for kit sales in foreign countries increased by \$203,319, or 160.83%, from \$126,427 for the same period in 2003. The increase in gross profit was consistent with the increase in sales volume and the decrease in

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cost of goods sold for this period.

Consolidated Operating Expenses

The Company incurred selling expenses of \$1,270,042 for the period ended September 30, 2004, of which the Company incurred \$1,172,192 in its United States operations. The Company's selling expense for this period increased by \$232,128, a 22.36% increase compared to selling expense of \$1,037,914 for the same period in 2003. The increase in selling expenses in the current period was due to increased freight and promotional charges associated with the Company's transition away from its Looney Tunes(TM) product line and the development of four new product lines by the Company, utilizing newly licensed and directly owned branded trademarks.

The Company incurred general and administrative expenses for the period ended September 30, 2004 of \$2,213,326, most of which the Company incurred in its United States business operations. The Company's general and administrative expenses for this period increased by \$444,074, a 25.1% increase compared to \$1,769,252 for the same period in 2003. The increase in general and administrative expenses for the current period in 2004 is the result of the accrual of the compensation value of the conversion of management's and directors' options to common stock, in the amount of \$431,600. This expense is a one time charge.

As a percentage of total revenue, the Company's general and administrative expenses decreased from 162.8% in the period ended September 30, 2003, to 81.8% for the current period in 2004. The Company anticipates 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

The Company incurred interest expense for the period ended September 30, 2004 of \$154,817. The Company's interest expense increased by \$147,317, a 1,964% increase compared to \$7,500 for the same period in 2003. The increase was due to additional loans in 2004 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.

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Loss Per Share

The Company accrued dividends payable of \$291,460 to various series of preferred stock during the period ended September 30, 2004. The Company's accrued dividends increased for this period by \$41,431, or 16.57%, from \$250,029 for the same period in 2003. The increase in net loss before accrued dividends of \$970,106, from \$1,912,025 for the period ended September 30, 2003 to \$2,882,131 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 \$0.10 for the same period in 2003, to a loss per share of \$0.08 for the current period. The net loss for the three month period ended September 30, 2004, represents a loss per share of \$0.03.

Three Months Ended September 30, 2004 Compared to the

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Three Months Ended September 30, 2003

Revenue

The Company had revenues for the three months ended September 30, 2004 of \$825,430, with cost of sales of \$628,747, resulting in a gross profit of \$196,683, or 23.8% of sales. This revenue and resultant gross margin is net of slotting fees and promotional discounts for this period in the amount of \$57,366. Absent the contra revenue effect of these fees and discounts, the Company's had a gross margin of 28.78%. Of the reported \$825,430, \$768,250 was from sales in the Company's U.S. operation, and \$57,150 from sales in Mexico. The Company did not report any sales for Canada or the Middle East in the three months ended September 30, 2004. Our reported revenue for the three months ended September 30, 2004 increased by \$490,893, a 146.74% increase compared to revenue of \$334,537 for the three months ended September 30, 2003. The increase in revenue in the United States for the three months ended September 30, 2004 is the result of a change in revenue recognition and the introduction of the Company's new product lines during this period. The lack of sales in the Middle East for the three months ended September 30, 2004 was the result of pipeline effect purchases in the prior quarter.

Cost of Goods Sold

The Company incurred cost of goods sold of \$628,747 for the three months ended September 30, 2004, most of which was incurred in our U.S. operations. Our cost of goods sold for this period increased by \$575,274, a 1,076% increase compared to \$53,473 for the three months ended September 30, 2003. The increase in cost of goods sold in the United States for the three months ended September 30, 2004 is the result of a change in revenue recognition and the corresponding material increase in the cost of good sold associated wit that change.

Operating Expense

The Company incurred selling expenses for the three months ended September 30, 2004 of \$652,622 most of which was incurred in our U.S. operation. Selling expenses increased for the three months ended September 30, 2004 by \$295,238, an 82.61% increase compared to the

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selling expense of \$357,384 for the three months ended September 30, 2003. The increase in selling expenses is the result of the adoption of the refined business plan in the U.S. for the Company's North America Bravo! operations, including the costs associated with the sale of finished product to retail establishments through brokers and distributors.

The Company incurred general and administrative expenses for the three months ended September 30, 2004 of \$551,299, all of which was incurred in the U.S. operations. General and administrative expenses for the three months ended September 30, 2004 increased by \$73,178, a 15.3% increase compared to \$478,121 for the same period in 2003. This increase was the result of the costs associated with the development and launch of new product lines and licensing costs.

Interest Expense

The Company incurred interest expense for the three months ended

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September 30, 2004 of \$79,822. Interest expense for the three months ended September 30, 2004 increased by \$76,401, a 2,233% increase compared to \$3,421, for the same period in 2003. This increase was the result of additional loans in this period 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.

Net Loss

The Company had a net loss in for the three months ended September 30, 2004 of \$1,120,992 compared with a net loss of \$563,996 for the same period in 2003. The net loss increased by \$556,996 or 98.75% compared to the same period in 2003. The increase in net loss resulted from the costs associated with the development and launch of new product lines, licensing costs and the change in revenue recognition with the associated increase in reported cost of goods sold and decrease of the gross margin.

LIQUIDITY AND CAPITAL RESOURCES

As of September 30, 2004, the Company reported that net cash used in operating activities was \$3,392,948, net cash provided by financing activities was \$3,439,999 and net cash used in investing activities was \$47,647. The Company had a negative working capital of \$2,473,031 as of September 30, 2004.

Compared to \$1,118,564 of net cash used in operating activities in the period ended September 30, 2003, the Company's current year net cash used in operating activities increased by \$2,274,384 to \$3,392,948. This increase was the result the Company's 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 \$364,995, compared to \$102,843 for the same period in 2003.

Changes in accounts receivable in this current period in 2004 resulted in a cash decrease of \$8,490, compared to a cash increase in receivables of \$132,635 for the same period in 2003, having a net result of a decrease of \$141,125. The changes in accounts payable and accrued

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liabilities in the period ended September 30, 2003 contributed to a cash increase of \$728,498, whereas the changes in accounts payable and accrued liabilities for the current period in 2004 amounted to an decrease of \$224,031. The Company has adopted and will keep implementing cost-cutting measures to lower its costs and expenses and to pay the Company's accounts payable and accrued liabilities by using cash and equity instruments. The Company's cash flow generated through operating activities was inadequate to cover all of its cash disbursement needs in the period ended September 30, 2004, and the Company had to rely on equity and debt financing to cover expenses.

The Company's cash used in 2004 in investing activities for equipment was \$47,647 for software, computer equipment and leasehold improvements in the U.S., compared to \$31,362 for the same period in 2003.

The Company's net cash provided by financing activities for the period ended September 30, 2004 was \$3,439,999. New cash provided by

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financing activities for the same period in 2003 was \$1,027,062, for a net increase of \$2,412,937. The increase was due to issuing Series K preferred stock with gross proceeds of \$950,000 and debt in the aggregate amount of \$2,639,999 in this current period.

The Company used the proceeds of the current period financing for working capital purposes and to repay approximately \$1,128,386 under a note to Jasper Products.

Going forward, the Company's primary requirements for cash consist of (1) the continued development of the Company's business model in the United States and on an international basis; (2) general overhead expenses for personnel to support the new business activities; (3) development, launch and marketing costs for the Company's line of new branded flavored milk products, and (4) the payment of guaranteed license royalties. The Company estimates that its need for financing to meet cash needs for operations will continue to the fourth quarter of 2004, when cash supplied by operating activities will approach the anticipated cash requirements for operation expenses. The Company anticipates the need for additional financing in 2004 to reduce the Company's liabilities, assist in marketing and to improve shareholders' equity status. No assurances can be given that the Company will be able to obtain additional financing or that operating cash flows will be sufficient to fund the Company's operations.

The Company currently has monthly working capital needs of approximately \$200,000. The Company will continue to incur significant selling and other expenses in the remainder of 2004 and into 2005 in order to derive more revenue in retail markets, through the introduction and ongoing support of its new products. Certain of these expenses, such as slotting fees and freight charges, will be reduced as a function of unit sales costs as the Company expands its sales markets and increases its sales within established markets. Freight charges will be reduced as the Company is able to ship more full truck-loads of product given the reduced per unit cost associated with full truck loads versus less than full truck loads. 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. The Company believes that along with the increase in the Company's unit sales volume, the average unit selling expense and associated costs will decrease, resulting in gross margins sufficient to mitigate the Company's cash needs. In addition, the Company is actively seeking additional financing to support its operational needs and to develop an expanded promotional program for the Company's products.

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The Company is continuing to explore new points of sale for its branded flavored milk. Presently, the Company is 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 the Company's revenue during 2004. Similarly, the Company expects that the greater control over sales resulting from its 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 in 2004.

New Product Lines

In the third quarter 2003, the Company commenced an analysis of the Looney Tunes(TM) brand performance within the context of the possible renewal of its Warner Bros. licenses for United States, Mexico, China and

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Canada. In the fourth quarter 2003, the Company 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, the Company decided not to renew its 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. The Company has developed new aseptic products in anticipation of these licenses and its own singular brand. The Company launched its Marvel branded Slammers(R) Ultimate Milkshake products in the second quarter 2004 and plans to launch the rest of the following new products in the third quarter 2004.

| Brand | Marvel-Slammers | Moon Pie-Slammers | Slim Slammers | Pro-Slammers |
|-------------------|---|---|---|--|
| Item | Ultimate Milkshake | Flavored milk; reduced fat 2% milk | Low calorie, no sugar added, low carb 1% milk | Protein Shake |
| Licensed Property | Marvel Super Hero comic book characters and Slammers mark (owned by Bravo! Foods) | MoonPie logo and trade dress, and Slammers mark (owned by Bravo! Foods) | Slim Slammers trademark (owned by Bravo! Foods) | Extreme Sports athletes, and Pro-Slammers mark (owned by Bravo! Foods) |
| Packaging | 16 oz bottles; 11.2 oz Tetra Prisma | 16 oz bottles; 11.2 oz Tetra Prisma | 16 oz bottles | 16 oz bottles; 11.2 oz Tetra Prisma |
| Description | Whole milk shake; 5 flavors; vitamin fortification matches Marvel Super Hero powers | Chocolate and banana flavors; fortified with 10 essential vitamins | Chocolate Fudge and French Vanilla; calcium added | Double protein shake; 4 flavors; fortified with essential vitamins |

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

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On September 21, 2004, the Company 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 serving flavored milk drinks in the United States, its Possessions and Territories, and US Military installations worldwide. The license limits the relationship of the parties to separate independent entities. The initial term of the license agreement expires December 31, 2007. The Company has 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. The Company has been granted a right of first refusal for other milk beverage products utilizing the Masterfoods marks within the license territory.

DEBT STRUCTURE

As of September 30, 2004, the Company has recorded \$147,115 in guaranteed royalty payments to Warner Bros. for the now expired China Looney Tunes license. The China license had been extended to October 29, 2003 by agreement of the parties, and the Company did not seek another license from Warner Bros. for China. This decision was based upon the lack of sales in the Company's China markets and what the Company perceived to be the licensor's continuing overall lack of brand support in China. The Company and Warner Bros. dispute the contractual necessity of the payment of the balance owed on the China license as a result of the above circumstances.

International Paper

During the process of acquiring from American Flavors China, Inc. the 52% of equity interest in Hangzhou Meilijian, the Company issued an unsecured promissory note to assume the American Flavors' debt owed to a supplier, International Paper. The face value of that note was \$282,637 at an interest rate of 10.5% per annum, without collateral. The note had 23 monthly installment payments of \$7,250 with a balloon payment of \$159,862 at the maturity date of July 15, 2000. On July 6, 2000, International Paper agreed to extend the note to July 1, 2001, and the principal amount was adjusted due to a different interest calculation. International Paper imposed a charge of \$57,000 to renegotiate the note owing to the failure of Hangzhou Meilijian to pay for certain packing material, worth more than \$57,000 made to order in 1999. The current outstanding balance on this note is \$187,743. The Company is delinquent in its payments under this note.

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Individual Loans

On November 6 and 7, 2001, respectively, the Company 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 the Company's 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

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18, 2002, the Company agreed to extend the expiration dates of warrants issued in connection with the Company's 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, the Company 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 the Company's assets. On April 2, 2004, this note was paid and cancelled.

On January 28, 2004, the Company 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 the Company's products. As of March 31, 2004, the Company paid \$200,000 in principal and was credited an additional \$11,350. On April 20, 2004, the Company paid an additional \$200,000. On May 7, 2004, the Company paid \$717,036 in full payment of the note's principal and accrued interest.

On May 6, 2004, the Company 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 November 2, 2004. The Company issued warrants to purchase 3,000,000 shares of the Company's 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. The Company used the proceeds of this promissory note to pay the promissory note issued to Jasper Products in January 2004.

EFFECTS OF INFLATION

The Company believes that inflation has not had any material effect on its net sales and results of operations.

ITEM 3. CONTROLS AND PROCEDURES

a) Evaluation of Disclosure Controls and Procedures. The Company's Chief Executive Officer and the Company's principal financial officer, after evaluating the effectiveness of the

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Company's disclosure controls and procedures (as defined in the Securities Exchange Act of 1934 Rules 13a-14(c) and 15d-14(c) as of a date within 90 days of the filing date of this report on Form 10-QSB (September 30, 2004), have concluded that as of the Evaluation Date, the Company's disclosure controls and procedures were adequate and effective to ensure that material information relating to the Company and the Company's consolidated subsidiaries would be made known to them by others within those entities, particularly during the period in which this quarterly report on Form 10-QSB was being prepared.

b) Changes in Internal Controls. There were no significant changes in the Company's internal controls or in other factors that could significantly affect the Company's disclosure controls and procedures subsequent to the Evaluation Date, nor any significant deficiencies or

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material weaknesses in such disclosure controls and procedures requiring corrective actions. As a result, no corrective actions were taken.

PART II - OTHER INFORMATION

Item 2. Changes in Securities and Use of Proceeds

On August 9, 2004, the Company converted \$50,000 of its November 2003 Convertible Promissory Note into 1,000,000 shares of common stock pursuant to an August 5, 2004 notice of conversion from Gamma Opportunity Capital Partners LP, at a fixed conversion price of \$0.05. The conversion did not include accrued and unpaid interest on the converted amount. The Company issued the underlying common stock upon conversion pursuant to the Company's SB-2 registration statement, declared effective on August 3, 2004.

On August 23, 2004, the Company converted \$50,000 of its April 2004 Convertible Promissory Note into 500,000 shares of common stock pursuant to an August 5, 2004 notice of conversion from Longview Fund LP, at a fixed conversion price of \$0.10. The conversion did not include accrued and unpaid interest on the converted amount. The Company issued the underlying common stock upon conversion pursuant to the Company's SB-2 registration statement, declared effective on August 3, 2004.

On September 27, 2004, the Company converted \$50,000 of its April 2004 Convertible Promissory Note into 500,000 shares of common stock pursuant to a September 21, 2004 notice of conversion from Longview Fund LP, at a fixed conversion price of \$0.10. The conversion did not include accrued and unpaid interest on the converted amount. The Company issued the underlying common stock upon conversion pursuant to the Company's SB-2 registration statement, declared effective on August 3, 2004.

Subsequent Events

On October 6, 2004, the Company converted \$20,000 of its November 2003 Convertible Promissory Note into 500,000 shares of common stock pursuant to a September 23, 2004 notice of conversion from Gamma Opportunity Capital Partners LP, at a fixed conversion price of \$0.05. The conversion did not include accrued and unpaid interest on the converted amount. The Company issued the underlying common stock upon conversion pursuant to the Company's SB-2 registration statement, declared effective on August 3, 2004.

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On October 6, 2004, the Company issued 500,000 shares of its common stock to Knightsbridge Holdings, LLC, pursuant to a consulting agreement dated November 10, 2003. The Company issued the underlying common stock pursuant to the Company's SB-2 registration statement, declared effective on August 3, 2004. The issued and outstanding equity reported in the Company's Form 10QSB for the period ended March 31, 2004 reflects these shares of common stock.

On October 15, 2004, the Company issued 750,000 shares of its common stock to Marvel Enterprises, Inc., as partial compensation under a license agreement dated February 1, 2004. The Company issued the underlying common stock pursuant to the Company's SB-2 registration statement, declared effective on August 3, 2004. The issued and outstanding equity reported in the Company's Form 10QSB for the period ended March 31, 2004 reflects these shares of common stock.

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On October 29, 2004, the Company 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 of the Company at \$0.10 per common share. Conversions are limited to a maximum ownership of 9.99% of the underlying common stock at any one time. 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. The Company has the option to defer such payment until the note's maturity date on April 30, 2006, if the Company's 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, the Company 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 Company issued the convertible notes and warrants to accredited investors, pursuant to a Regulation D offering.

Item 6. Exhibits and Reports on Form 8-K

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

No. 31: Rule 13a-14(a) / 15d-14(a) Certifications
No. 32: Section 1350 Certifications

(b) Reports on Form 8-K

Form 8-K concerning interim results of product launch, filed on July 12, 2004

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Form 8-K concerning public conference call, filed on August 12, 2004

Form 8-K concerning Masterfoods License Agreement, filed on September 29, 2004

Form 8-K concerning \$550,000 Convertible Note financing, filed on November 1, 2004

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: November 12, 2004

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/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 ----- | Title ----- | Date ----- |
|-----------------------------------|-------------------------|-------------------|
| /S/ Roy G. Warren and Director | Chief Executive Officer | November 12, 2004 |
| /S/ Tommy E. Kee | Chief Financial Officer | November 12, 2004 |