

BRAVO FOODS INTERNATIONAL CORP
Form 10QSB/A
December 24, 2003

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

FORM 10-QSB/A
AMENDED 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, 2003

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)

Check whether the issuer

- (1) filed all reports required to be filed by Section 13 or 15 (d) of the Exchange Act during the past 12 months (or for such shorter period that the registrant was required to file such reports), and
- (2) has been subject to such filing requirements for the past 90 days. Yes No

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 |
|----------|--------------|--------------------|
| 11/11/03 | Common Stock | 27,647,542 |

BRAVO! FOODS INTERNATIONAL CORP.

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Report of Independent Certified Public Accountants

Bravo! Foods International Corp.
11300 US Highway 1, Suite 202
North Palm Beach, FL 33408

We have reviewed the condensed consolidated balance sheet of Bravo! Foods International Corp. as of September 30, 2003, and the related condensed consolidated statements of operations for the three-month and nine-month periods ended September 30, 2003, and cash flows for the nine-month periods ended September 30, 2003 included in the accompanying Securities and Exchange Commission Form 10-QSBA for the period ended September 30, 2003. These financial statements are the responsibility of the Company's management.

We conducted our reviews in accordance with standards established by the American Institute of Certified Public Accountants. A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

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Based on our reviews, we are not aware of any material modifications that should be made to the condensed consolidated financial statements referred to above for them to be in conformity with accounting principals generally accepted in the United States of America.

We have previously audited, in accordance with auditing standards generally accepted in the United States of America, the consolidated balance sheet of Bravo! Foods International Corp. as of December 31, 2002, and the related consolidated statements of operations, capital deficit, and cash flows for the year then ended (not presented herein); and our report dated March 15, 2002 thereon included a going concern uncertainty that stated "The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in the summary of accounting policies in the consolidated financial statements, the Company has a limited operating history, has incurred substantial losses since its inception, and at December 31, 2002, has a working capital deficiency, is delinquent on certain of its debts and has negative net assets, all of which raise substantial doubt about the Company's ability to continue as a going concern. Management's plans in regard to these matters are also described in the same section. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty."

BDO Seidman, LLP
December 23, 2003

BRAVO! FOODS INTERNATIONAL CORP. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

| | December 31, 2002 | September 30, 2003 |
|---|----------------------|-----------------------|
| | ----- | ----- |
| | | (unaudited) |
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 224,579 | \$ 101,571 |
| Accounts receivable | 236,149 | 103,514 |
| Other receivable | 14,662 | 107,762 |
| Advance to vendor | 8,719 | - |
| Inventories | 55,062 | 55,106 |
| Prepaid expenses | 7,605 | 113,812 |
| | ----- | ----- |
| Total current assets | 546,776 | 481,765 |
| Furniture and equipment, net | 89,602 | 78,298 |
| License rights, net of accumulated amortization | 88,104 | 40,074 |
| Deposits | 15,000 | 10,736 |
| | ----- | ----- |

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| | | |
|--------------------------------------|------------|------------|
| Total assets | \$ 739,482 | \$ 610,873 |
| | ===== | ===== |
| Liabilities and Capital Deficit | | |
| Current liabilities: | | |
| Notes payable to International Paper | \$ 187,743 | \$ 187,743 |
| Notes payable to individual lenders | 100,000 | 100,000 |
| Note payable to Mid-Am Capital LLC | - | 150,000 |
| Notes payable to Warner Bros. | 270,053 | 147,115 |
| Accounts payables | 1,039,313 | 1,591,535 |
| Accrued liabilities | 409,615 | 585,890 |
| | ----- | ----- |
| Total current liabilities | 2,006,724 | 2,762,283 |
| Dividends payable | 266,666 | 492,948 |
| | ----- | ----- |
| Total liabilities | 2,273,390 | 3,255,231 |
| | ----- | ----- |

The financial statements should be read in conjunction with the notes herein and the Notes to Consolidated Financial Statements appearing in the most recent Form 10 KSB

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BRAVO! FOODS INTERNATIONAL CORP. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

| | December 31, 2002 | Sep |
|---|----------------------|-------|
| | ----- | ----- |
| 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 | |
| Series F convertible and redeemable preferred stock, stated value \$10.00 per share, 130,315 shares issued and outstanding | 1,205,444 | |
| Series G convertible, 8% cumulative and redeemable preferred stock, stated value \$10.00 per share, 70,208 and 58,810 shares issued and outstanding | 624,115 | |
| Series H convertible, 7% cumulative and redeemable preferred stock, stated value \$10.00 per share, 175,500 and 165,500 shares issued and outstanding | 939,686 | |
| Series I convertible, 8% cumulative and redeemable preferred stock, stated value \$10.00 per share, 30,000 shares issued and outstanding | 72,192 | |
| Series J convertible, 8% cumulative and redeemable preferred stock, | | |

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| | | |
|--|--------------|-------|
| stated value \$10.00 per share, 100,000 and 200,000 shares issued and outstanding | 854,279 | |
| Common stock, par value \$0.001 per share, 50,000,000 shares authorized, 25,732,854 and 27,647,542 shares issued and outstanding | 25,730 | |
| Additional paid-in capital | 20,266,463 | 2 |
| Accumulated deficit | (25,629,016) | (2 |
| Translation adjustment | (241) | |
| | ----- | ----- |
| Total capital deficit | (1,533,908) | (|
| | ----- | ----- |
| Total liabilities and capital deficit | \$ 739,482 | \$ |
| | ===== | ===== |

The financial statements should be read in conjunction with the notes herein and the Notes to Consolidated Financial Statements appearing in the most recent Form 10 KSB

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BRAVO! FOODS INTERNATIONAL CORP. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

| | Three Months Ended September 30, | | Nine Se |
|--|-------------------------------------|-------------|------------|
| | 2002 | 2003 | 2002 |
| | (Unaudited) | (Unaudited) | (Unaudite |
| Revenue - unit sales | \$ - | \$ 110,584 | \$ |
| Revenue - net kit sales | 17,750 | - | 425,6 |
| Revenue - gross kit sales | 290,979 | 223,953 | 627,5 |
| | ----- | ----- | ----- |
| Total Revenue | 308,729 | 334,537 | 1,053,1 |
| Cost of sales | (56,516) | (53,473) | (133,0 |
| | ----- | ----- | ----- |
| Gross margin | 252,213 | 281,064 | 920,1 |
| Selling expense | 28,503 | 357,384 | 46,0 |
| Product development | - | 6,134 | |
| General and administrative expense | 882,555 | 478,121 | 3,099,0 |
| | ----- | ----- | ----- |
| Loss from operations | (658,845) | (560,575) | (2,224,9 |
| Other expense: | | | |
| Interest expense, net | 922 | (3,421) | (20,7 |
| | ----- | ----- | ----- |
| Loss before income taxes | (657,923) | (563,996) | (2,245,6 |
| Provision for income taxes | - | - | |
| | ----- | ----- | ----- |
| Net loss | (657,923) | (563,996) | (2,245,6 |
| | | | |
| Dividends accrued for Series B preferred stock | (2,471) | (2,437) | (7,3 |
| Dividends accrued for Series D preferred stock | (1,393) | - | (18,5 |

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| | | | |
|--|--------------|--------------|-------------|
| Dividends accrued for Series G preferred stock | (14,205) | (7,192) | (45,6 |
| Dividends accrued for Series H preferred stock | (16,810) | (30,697) | (280,8 |
| Dividends accrued for Series I preferred stock | (1,476) | (6,049) | (296,4 |
| Dividends accrued for Series J preferred stock | (305,721) | (40,329) | (305,7 |
| Deemed dividends on Series J preferred stock | - | - | |
| | ----- | ----- | ----- |
| Net loss applicable to common shareholders | \$ (999,999) | \$ (650,700) | \$ (3,200,2 |
| | ===== | ===== | ===== |
| Weighted average number of common shares outstanding | 21,365,343 | 27,382,453 | 18,150,9 |
| | ===== | ===== | ===== |
| Basic and diluted loss per share | \$ (0.05) | \$ (0.02) | \$ (0. |
| | ===== | ===== | ===== |
| Comprehensive loss and its components consist of the following: | | | |
| Net loss | \$ (657,923) | \$ (563,996) | \$ (2,245,6 |
| Foreign currency translation adjustment | - | 128 | (4 |
| | ----- | ----- | ----- |
| Comprehensive loss | \$ (657,923) | \$ (563,868) | \$ (2,246,1 |
| | ===== | ===== | ===== |

The financial statements should be read in conjunction with the notes herein and the Notes to Consolidated Financial Statements appearing in the most recent Form 10 KSB

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BRAVO! FOODS INTERNATIONAL CORP. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

| | Nine Months Ended September 30, | |
|--|---------------------------------|----------------|
| | 2002 | 2003 |
| | (Unaudited) | (Unaudited) |
| Cash flows from operating activities: | | |
| Net loss | \$ (2,245,699) | \$ (1,912,025) |
| Adjustments to reconcile net loss to net cash used in operating activities: | | |
| Depreciation and amortization | 457,436 | 74,843 |
| Stock issuance for compensation | 516,204 | 28,000 |
| Loss on disposal of fixed assets | - | 15,853 |
| Increase (decrease) from changes in: | | |
| Accounts receivable | (31,601) | 132,635 |
| Other receivable | (1,004) | (93,100) |
| Advance to vendors | 3,200 | 8,719 |
| Inventories | 604 | (44) |
| Prepaid expenses | (22,175) | (101,943) |
| Accounts payable and accrued expenses | 389,216 | 728,498 |

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| | | |
|--|-------------|-------------|
| License rights | (282,721) | - |
| Net cash used in operating activities | (1,216,540) | (1,118,564) |
| Cash flows from investing activities: | | |
| Purchase of equipment | (1,797) | (31,362) |
| Net cash used in investing activities | (1,797) | (31,362) |
| Cash flows from financing activities: | | |
| Proceeds from issuance of Preferred Series H | 700,000 | - |
| Proceeds from issuance of Preferred Series I | 287,988 | - |
| Proceeds from issuance of Preferred Series J | 1,000,000 | 1,000,000 |
| Proceeds from exercise of stock options | 330,000 | - |
| Borrowings | | 150,000 |
| Payment of note payable, bank loan and incense fee payable | (345,076) | (122,938) |
| Net cash provided by financing activities | 1,972,912 | 1,027,062 |
| Effect of exchange rate changes on cash | - | (144) |
| Net decrease in cash and cash equivalents | 754,575 | (123,008) |
| Cash and cash equivalents, beginning of period | 232,040 | 224,579 |
| Cash and cash equivalents, end of period | \$ 986,615 | \$ 101,571 |

The financial statements should be read in conjunction with the notes herein and the Notes to Consolidated Financial Statements appearing in the most recent Form 10 KSB

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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 Chinese subsidiary China Premium Food (Shanghai) Co., Ltd. (the "Company"). The Company is engaged in the sale of flavored milk products and flavor ingredients in the United States, Canada and Mexico and the co-production, marketing and distribution of branded dairy and snack food products in the People's Republic of China.

The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and with the instructions to Form 10QSB and Regulation S-X, where required. All significant intercompany accounts and transactions have been eliminated in consolidation. 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)

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considered necessary for fair presentation have been included. Operating results for the three or nine month period ended September 30, 2003 are not necessarily indicative of the results that may be expected for the year ending December 31, 2003. 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, 2002.

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 \$28,158,281, a capital deficit of \$2,644,358, negative working capital of \$2,280,518 and is delinquent on certain of its debts at September 30, 2003. Further, the Company's auditors stated in their report on the Company's Consolidated Financial Statements for the year ended December 31, 2002, that these conditions raise substantial doubt about the Company's ability to continue as a going concern. Management plans to improve gross profit margins in its U.S. business and obtain additional financing. 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. 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 sells flavor ingredients and production rights (collectively referred to as "kits") to processor dairies in the U.S., China, Canada and Mexico and also sells flavored milk products in the U.S. Revenue is recognized when the goods are shipped, and title and the risk and reward of ownership have been passed to the customer and possible return of goods can be reasonably estimated. 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". Pursuant to EITF 99-19, sales of kits made directly to customers by the Company are reflected in the statement of operations on a gross basis, whereby the total amount billed to the customer is recognized as revenue. Sales of kits made

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through intermediaries, in which the Company's role is similar to that of an agent, are reflected on a net basis, which represents the amount earned by the Company in the transaction.

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). The fair value of such 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 following table illustrates the effect on net loss and loss per

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share as if the Company had applied the fair value recognition provision of SFAS No. 123 to stock-based employee compensation.

| | Nine Months Ended September 30, | |
|---|------------------------------------|---------------|
| | 2002 | 2003 |
| | ---- | ---- |
| Net loss: applicable to common shareholders | \$(3,200,214) | \$(2,529,265) |
| Add: total stock based employee compensation expense determined under fair value method for all awards | - | (4,500) |
| | ----- | ----- |
| Pro forma net loss | \$(3,200,214) | \$(2,533,765) |
| | ===== | ===== |
| Loss per share: | | |
| As reported | \$ (0.18) | \$ (0.10) |
| Pro forma | \$ (0.18) | \$ (0.10) |

Non Cash Transactions

During the nine months ended September 30, 2003, Series G, H and J convertible preferred stock were converted to common stock along with 100,000 shares of common stock to an employee for compensation. Accordingly, additional paid-in capital and common stock increase 603,124 and 27,900 respectively.

Litigation

From time to time the Company is involved in litigation of a commercial nature, largely based upon contractual disputes. No litigation of a material nature is pending for which the Company believes it has exposure.

Note 2 - Capital Deficit

On January 2, 2003, the Company issued 100,000 shares of common stock to an employee. This common stock will be issued under a Form S-8 registration statement. In January 2003, the Company recorded \$28,000 of compensation expense based upon a signing bonus for this grant.

On January 2, 2003 the Company granted options for 100,000 shares of common stock to Mr. Toulan pursuant to an employment contract. These options vested immediately, expire on December 30, 2007 and have an exercise price of \$0.40 per share.

Further, the Company granted options for 200,000 shares of common stock to Mr. Toulan pursuant to an employment contract. These options have an exercise price of \$0.40 per share. Options for 100,000 shares vest on each of December 31, 2003 and 2004, and 100,000 expire on each of December 30, 2008 and December 30, 2009, respectively.

On February 4, 2003, the Company issued 30,000 shares of common stock to Keshet, LP, upon the conversion of 480 shares of Series G Convertible Preferred stock.

On February 21, 2003, the Company issued 50,000 shares of non-voting Series J 8% Convertible Preferred stock, having a stated value of \$10.00 per Preferred J share, and common stock warrants to Mid-Am Capital, L.L.C. ("Mid-AM") for the aggregate purchase price of \$500,000. Each preferred share is convertible to 40 shares of the Company's common stock at a per common share conversion price of \$0.25, representing 2,000,000 shares of common stock underlying the preferred. The issued warrants entitle the holder to purchase 33.33 shares of common stock for each share of Series J Convertible Preferred stock issued at an exercise price of \$0.30 per common stock share, representing 1,666,667 shares of common stock underlying the warrants. The warrants are exercisable for a five-year period. The February 21, 2003 closing market trading price was \$0.23 per share. 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. In accordance with EITF 00-27, the Company recorded a deemed dividend of \$274,720 related to a beneficial conversion feature.

On April 14, 2003, the Company issued 50,000 shares of common stock to Keshet, LP, upon the conversion of 596 shares of Series G Convertible Preferred, at a conversion price of \$0.148. The conversion included accrued and unpaid dividends on the preferred converted.

On April 22, 2003, the Company issued 50,000 shares of common stock to The Keshet Fund, LP, upon the conversion of 595 shares of Series G Convertible Preferred, at a conversion price of \$0.148. The conversion included accrued and unpaid dividends on the preferred converted.

On May 22, 2003, the Company issued 100,000 shares of common stock to Keshet, LP, upon the conversion of 607 shares of Series G Convertible Preferred, at a conversion price of \$0.076. The conversion included accrued and unpaid dividends on the preferred converted.

On May 22, 2003, the Company issued 100,000 shares of common stock to The Keshet Fund, LP, upon the conversion of 607 shares of Series G Convertible Preferred, at a conversion price of \$0.076. The conversion included accrued and unpaid dividends on the preferred converted.

On May 29, 2003, the Company issued 50,000 shares of non-voting Series J 8% Convertible Preferred stock, having a stated value of \$10.00 per Preferred J share, and common stock warrants to Mid-Am Capital, L.L.C. for the aggregate purchase price of \$500,000. Each preferred share is convertible to 50 shares of the Company's common stock at a conversion price of \$0.20, representing 2,500,000 shares of common stock underlying the preferred. The issued warrants entitle the holder to purchase 40 shares of common stock for each share of Series J Convertible Preferred stock issued at an exercise price of \$0.25 per common stock share, representing 2,000,000 shares of common stock underlying the warrants. The warrants are exercisable for a five-year period. The May 22, 2003 closing market trading price was \$0.12 per share. 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 Holder. The purchase price, as defined in the Warrants No. 1 and 2, has been reduced to \$0.25, subject to further adjustment as described in the warrants. The warrant stock provided for in Warrant No.1 has been increased by 1,500,000 shares. The warrant stock provided for in Warrant No. 2 has

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been increased by 333,333 shares. The expiration date, as defined in the respective warrants, remains as stated. The trading price call option trigger set forth in Section 9 (b) of the warrants has been reduced from \$1.75 to \$0.75 per share. 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. The value of the warrants, \$92,491, was determined using the Black-Scholes model.

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On August 12, 2003, the Company issued 1,200,000 shares of common stock based upon Series G notices of conversion received in June and July 2003, as set forth below. The issuance of common was delayed in order to determine the accuracy of the conversion variables contained in the respective notices of conversion.

The Company issued 200,000 shares of common stock to Keshet, LP, upon the conversion of 1,209 shares of Series G Convertible Preferred, at a conversion price of \$0.076. The conversion included accrued and unpaid dividends on the preferred converted.

The Company issued 200,000 shares of common stock to The Keshet Fund, LP, upon the conversion of 1,209 shares of Series G Convertible Preferred, at a conversion price of \$0.076. The conversion included accrued and unpaid dividends on the preferred converted.

The Company issued 150,000 shares of common stock to The Keshet Fund, LP, upon the conversion of 773 shares of Series G Convertible Preferred, at a conversion price of \$0.0653. The conversion included accrued and unpaid dividends on the preferred converted.

The Company issued 250,000 shares of common stock to Keshet, LP, upon the conversion of 1,289 shares of Series G Convertible Preferred, at a conversion price of \$0.0653. The conversion included accrued and unpaid dividends on the preferred converted.

The Company issued 200,000 shares of common stock to Talbiya B. Investments, Ltd., upon the conversion of 1,031 shares of Series G Convertible Preferred, at a conversion price of \$0.0653. The conversion included accrued and unpaid dividends on the preferred converted.

The Company issued 200,000 shares of common stock to Neshet. Ltd., upon the conversion of 1,031 shares of Series G Convertible Preferred, at a conversion price of \$0.0653. The conversion included accrued and unpaid dividends on the preferred converted.

On September 13, 2003, the Company issued 213,750 shares of common stock to Michael Willms, upon the conversion of 7,500 shares of Series H Convertible Preferred, at the fixed conversion price of \$0.40. The conversion included accrued and unpaid dividends on the preferred converted.

On September 29, 2003, the Company issued 70,938 shares of common stock to The Dennis H. Willms Irrevocable Trust, Michael Willms, Trustee, upon the conversion of 2,500 shares of Series H Convertible Preferred, at the fixed conversion price of \$0.40. The conversion included accrued and unpaid dividends on the preferred converted.

Note 3 - Adoption of New Accounting Standards

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In November 2002, the FASB issued Interpretation No. 45 ("FIN No. 45"), "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others." FIN No. 45 expands on the accounting guidance of Statements No. 5, 57, and 107 and incorporates without change the provisions of FASB Interpretation No. 34, which is being superseded. FIN No. 45 will affect leasing transactions involving residual guarantees, vendor and manufacturer guarantees, and tax and environmental indemnities. All such guarantees will need to be disclosed in the notes to the financial statements starting with the period ending after December 15, 2002. For guarantees issued after December 31, 2002, the fair value of the obligation must be reported on the balance sheet. Existing guarantees will be grandfathered and will not be recognized on the balance sheet. The Company's Certificate of Incorporation provides that the Company "shall be empowered to indemnify" to the full extent of its power to do so, all directors and officers, pursuant to the applicable provisions of the Delaware General Corporation Law. The Company has determined that it will indemnify its officers and

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directors to the full extent permitted under Section 145 of the Delaware General Corporation Law. There was no impact on the financial position and results of operations due to the application of FIN No. 45.

Note 4 - Business Segment and Geographic Information

The Company operates principally in one industry segment. The following sales information was based on customer location rather than subsidiary location. The allocation of the cost of equipment, the current year investment in new equipment and depreciation expense have been made on the basis of the primary purpose for which the equipment was acquired. The following furniture and equipment information was based on where the furniture and equipment was used.

Geographic Area Information:

| 9 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 | \$ 910,429 |
| | ===== | ===== | ===== | ===== | ===== |
| Furniture and equipment, net | \$ 71,376 | \$ - | \$ - | \$ 6,922 | \$ 78,298 |
| | ===== | ===== | ===== | ===== | ===== |

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| 9 Months ended September 30, 2002 | United States ----- | Canada ----- | Mexico ----- | China ----- | Total Company ----- |
|--------------------------------------|---------------------------|-----------------|-----------------|----------------|---------------------------|
| Revenue - net kit sales | \$ 425,618 | \$ - | \$ - | \$ - | \$ 425,618 |
| Revenue - gross kit sales | 474,001 | 47,150 | 84,925 | 21,435 | 627,511 |
| | ----- | ----- | ----- | ----- | ----- |
| Total revenue | 899,619 | 47,150 | 84,925 | 21,435 | 1,053,129 |
| Cost of goods sold | (124,073) | - | - | (8,930) | (133,003) |
| | ----- | ----- | ----- | ----- | ----- |
| Gross margin | \$ 775,546 | \$ 47,150 | \$ 84,925 | \$ 12,505 | \$ 920,126 |
| | ===== | ===== | ===== | ===== | ===== |
| Furniture and equipment, net | \$ 71,563 | \$ - | \$ - | \$ 30,214 | \$ 101,777 |
| | ===== | ===== | ===== | ===== | ===== |

F-9

ITEM 2. MANAGEMENT DISCUSSION AND ANALYSIS ON FINANCIAL CONDITION AND OPERATION RESULTS - NINE MONTHS ENDED SEPTEMBER 30, 2003

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 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(TM) trademarked brand, the obtaining 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 and generating revenue primarily 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 dairies for the production, promotion and sales rights for the branded flavored milk. In the United States, the Company also 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

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to be expensive and the Company reported a net loss of \$1,912,025 for the nine months ended September 30, 2003. The Company has suffered operating losses and negative cash flows from operations since inception and at September 30, 2003 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. 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 the Company will be successful in carrying out the Company's plans.

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

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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 - Production Agreements with Jasper Products and Shamrock Farms

Commencing in the first quarter 2002, the Company recognized revenue in the United States at the gross amount of its invoices for the sale of kits at the shipment of flavor ingredients to Jasper Products and Shamrock Farms, two processor dairies with whom the Company has production contracts for extended shelf life and aseptic long life milk. Revenue 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 is allocated as follows: 90% to 95% of the revenue is for the processors' purchase of flavor ingredients; the balance of 5% to 10% represents fees charged by the Company to the processors for production rights. The Company recognizes revenue on the gross amount of "kit" invoices to the dairy processors and

simultaneously records as cost of good sold the cost of flavor ingredients paid by the processor dairies to the 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.

The processor dairies charge the Company for the cost of producing the branded flavored milk. The Company is responsible for freight charges from processor dairies to retail destinations, promotion costs and product returns of product owing to defects and out of date products. In addition, the Company pays the fee charged by food brokers retained by the Company to generate sales of the branded flavored milk products to retail outlets. In return, the Company is entitled to keep the difference between the cost charged by processor dairies and the wholesale price determined by the Company and charged to retail outlets. The Company treats this second earning event as "product sales revenue" when the revenue is realized or realizable and accrue any estimated expenses which are related to the Company's revenue at the end of each reporting period. Because the Company benefits only from the price difference and does not own the inventory, it recognizes the revenue net of associated costs.

In the second quarter 2003, Jasper Products ("Jasper") became the Company's principal supplier of out-sourced dairy processing in the United States. Management believes that this arrangement will result in greater efficiencies in the cost of processing and freight charges.

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International Sales and U.S. Sales to Parmalat

The Company and its subsidiary sell "kits" to processor dairies in Mexico, Canada, China and to Parmalat in the United States. The kits include the cost of flavor ingredients and rights to produce, market, distribute and sell branded flavored milk to retailers. As a matter of convenience, processors purchase the flavor ingredients for the kits directly from a designated ingredients supplier and are invoiced by the Company for the full price of the "kits" with a credit for the cost of flavor ingredients purchased by the processors. The Company is directly responsible for the administration of these sales, including the collection of receivables. Dairy processors are responsible for production, marketing, distribution and sales of the branded flavored milk to retailers. The normal production cycle for processors' utilization of purchased flavor ingredients has ranged from 6 weeks in Mexico, 4 weeks for Parmalat (U.S.) and 3 weeks for Canada. This type of sale was initiated at the end of 2001 with Mexico; Parmalat and Canada were added in the third quarter of 2002.

The Company recognizes revenue at the gross amount of kit invoices after shipment of flavor ingredients 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 the Company's credit risk to pay for ingredients if processors do not pay ingredient suppliers. The Company attributes the majority of the kit price to the sale of flavor ingredients (95% in the U.S. for Looney Tunes(TM), for example) and the balance to the Company's grant of production rights to processor dairies. The price of production rights is formulated to cover the Company's costs of the third party intellectual property licenses, which currently amount to 5% to 10% of the total cost of kits sold to the processors under the production

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agreements for the U.S., 7% for Mexico, 5% for Canada and 3% for China. The Company's recognition of revenue generated from the sale of production rights associated with the flavor ingredients is upon shipment of the ingredients to the processor, given the short utilization cycle of the ingredients shipped.

RESULTS OF OPERATIONS

Financial Condition at September 30, 2003

As of September 30, 2003, we had an accumulated deficit of \$28,158,281 and cash on hand of \$101,571 and reported total capital deficit of \$2,644,358.

For this same period of time, we had revenue of \$1,086,437 and general and administrative expenses of \$1,769,252.

After net interest expenses of \$7,500, cost of goods sold of \$176,008, product development of \$7,788 and selling expenses of \$1,037,914 incurred in the operations of the Company and its Chinese subsidiary, we had a net loss of \$1,912,025.

Nine Months Ended September 30, 2003 Compared to Nine Months Ended

September 30, 2002

Consolidated Revenue

We had revenues for the nine months ended September 30, 2003 of \$1,086,437, with cost of sales of \$176,008, resulting in a gross margin of \$910,429. Of the \$1,086,437, \$895,871 was from sales in the U.S. operation, \$111,463 from sales in Mexico, \$43,745 from sales in Canada and \$35,358 from sales in

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China. Revenue for the nine months ended September 30, 2003 increased by \$33,308, a 3.16% increase compared to revenue of \$1,053,129 for the same period in 2002.

Consolidated Cost of Sales

We incurred cost of goods sold of \$176,008 for the nine months ended September 30, 2003, \$111,869 of which was incurred in the U.S. operation, \$35,610 in Mexico, \$10,402 in Canada and \$18,127 in China. Cost of goods sold in 2003 increased by \$43,005, a 32.3% increase compared to \$133,003 for the same period in 2002. The increase in cost of goods sold reflects the full implementation of the unit sale model in 2003.

In Mexico, Canada, and China, and in part 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(TM) 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 with the cost of the raw flavor ingredients, which the Company records as cost of goods sold. In addition to kit sales revenue, in the

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United States the Company is responsible for the sale of finished Slammers (TM) flavored milk (referred to as "unit sales") to retail outlets. For these unit sales, the Company also recognizes as revenue the difference between the prices charged by the processor dairies to produce the milk and the price that the Company charges to the retail outlets that purchase the milks directly from the processor dairies. Since the Company benefits from only the difference between two prices, it does not record any costs of goods sold against this revenue event.

Segmented revenues and costs of sales

The table set forth on page F-9 of this report presents revenue by source, type and costs of goods sold, as well as combined gross revenues and gross margins. Revenues from Canada are generated by kit sales to Farmers Dairy, a Halifax dairy processor. Revenues from Mexico are generated from kit sales to Neolac, a dairy processor in central Mexico. In the United States, revenues are generated by kit sales to Parmalat, which is responsible for marketing and sales, and kit sales to independent dairy processors that produce extended shelf life and aseptic long life Slammers (TM) product. Revenues from these sales are recorded under "US Kit Sales" in the table. The Company's sale of ESL and aseptic product generates revenue recorded as "US Unit Sales."

United States (Jasper, Shamrock and Parmalat Sales)

Revenues for the nine months ended September 30, 2003 from kit sales in the United States decreased from \$899,619 for the same period in 2002 to approximately \$556,000 in 2003. In the period ended September 30, 2002, the Company recognized \$425,618 in net kit sales through Quality Chek'd. and \$474,001 from sales to Jasper and Shamrock Farms ("Shamrock"). In the same period in 2003, the Company had \$556,490 in kit sales, principally to Jasper. The increase in kit sales in 2003 from 2002 is the result of the full transition to Jasper and Shamrock.

In addition to kit sales, in the nine months ended September 30, 2003, the Company had revenues of \$336,644 from selling finished product unit sales to retail outlets.

Revenues from kit sales in the periods ended September 30, 2002 reflected the implementation of a business plan under which the Company took control of all sales on a kit level. Total United States sales decreased by \$3,748 from \$899,619 for the nine months ended September 30, 2002 to \$895,871 for the same period in 2003.

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The Company incurred cost of sales of \$ 111,869, attributable to United States sales in the period ended September 30, 2003, an decrease of \$12,204 from \$124,073 for the same period in 2002. The decrease in cost of goods is the result of less revenue than recognized for the nine months ended September 30, 2002.

In the period ended September 30, 2003, the Company's gross margin for U.S. sales of \$784,002, increased by \$8,456, or by 1.1%, from \$775,546 for the same period in 2002.

Mexico and Canada

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Revenues from Mexico and Canada are for kit sales only. Revenues for the period ended September 30, 2003 from kit sales in Mexico increased 31.2% from \$84,925 for the same period in 2002 to \$111,463 in 2003. The increase was the result of greater market penetration and brand awareness in Mexico. Canadian sales decreased 7.2% from \$47,150 for the nine months ended September 30, 2002 to \$43,745 for the period ended September 30, 2003. The decrease in reported kit sales to Canada is the result of insufficient promotion in the Canadian market.

For the period ended September 30, 2003, the Company's had gross profit of \$75,853 for sales in Mexico and \$33,343 for sales in Canada.

China

Revenues from China are for kit sales only. Revenues for the period ended September 30, 2003 from kit sales in China increased from \$21,435 for the nine months ended September 30, 2002 to \$35,358 for the period ended September 30, 2003.

Consolidated Operating Expenses

The Company incurred selling expenses of \$1,037,914 for the period ended September 30, 2003, all of which were incurred in the Company's North America Bravo! operations. The Company's selling expense for this period increased by \$991,897, compared to selling expense of \$46,017 for the same period in 2002. The increase in selling expenses is due to the introduction of unit sales and the ending of net kit sales. Unit sales require higher selling expenses, as explained in the following paragraph.

Of the increase of \$991,897, \$397,620 was incurred for freight and delivery expense, \$110,630 was related to food brokerage fees, \$77,394 was related to marketing, \$79,719 for sample expenses, \$230,384 for reclamation of product approaching sell by dates, \$48,697 for promotions and \$29,757 for advertising expense due to the continued ramp-up of the national United States sales program. As a percentage of total revenue, the Company's selling expense increased from approximately 4.4% of total revenue for the period ended September 30, 2002, when the Company recognized a significant portion of its revenues on a net basis, to approximately 95.5% of total revenue for the current period in 2003. The

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high reclamation costs have resulted from the rapid expansion of sales and distribution into new markets for the Company's Slammers(TM) milk products. In those markets where sales have not met initial estimates, the Company reclaims product for disposition as the product approaches "sell by" dates. As markets mature and product positioning is improved, the Company believes that reclamation costs will significantly decrease.

The Company incurred general and administrative expenses for the period ended September 30, 2003 of \$1,769,252, consisting of \$1,672,238 in its North America operations and \$97,014 in its China operations. The Company's general and administrative expenses for this period decreased by \$1,329,814, a 42.9% decrease compared to \$3,099,066 for the same period in 2002. The decrease for the current period in 2003 is the result mainly of cost reductions in salaries and overhead expenses, in addition to the lack of non-cash items added to the 2002 expenses as required by accounting rules.

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As a percentage of total revenue, the Company's general and administrative expenses decreased from 294.2% in the period ended September 30, 2002, to 162.8% for the current period in 2003, as a result of the Company's cost cutting measures and the absence of non-cash items. The Company anticipates a reduction of these expenses through cost cutting efforts and the continuation of the refinement of its business operations.

Interest Expense

The Company incurred net interest expense for the period ended September 30, 2003 of \$7,500, related to its U.S. operations. Interest expense decreased by \$13,242, an 63.84% decrease, compared to \$20,742 for the same period in 2002, almost all of which was incurred in the U.S. The decrease was due to the fact that the Company repaid a \$250,000 loan in 2002.

Loss Per Share

The Company accrued dividends payable of \$617,240, including deemed dividends, to various series of preferred stock during the nine months ended September 30, 2003. The Company's accrued dividends decreased for this period by \$337,275 from \$954,515 for the nine months ended September 30, 2002. This 35.3% decrease was due to decreased financing activities and the conversion of a portion of the preferred stock. The Company's loss per share was \$0.10 for the nine months ended September 30, 2003 compared to a \$0.18 loss per share for the same period in 2002. This decrease in the loss per share was the result of the increase in the weighted average number of shares outstanding for the comparable periods, combined with the decrease in net loss before accrued dividends of \$333,674, from \$2,245,699 for the nine months ended September 30, 2002 to \$1,912,025 for the same period in 2003.

Three Months Ended September 30, 2003 Compared to the Three Months Ended

September 30, 2002

Revenue

The Company had revenues for the three months ended September 30, 2003 of \$334,537, with cost of sales of \$53,473, resulting in a gross profit of \$281,064, or 84% of sales. Of the \$334,537, \$310,054 was from sales in the Company's U.S. operation, \$6,790 from sales in China and \$17,693 from sales in Mexico. Revenue for the three months ended September 30, 2003 increased by \$25,808, an 8.35% increase compared to revenue of \$308,729 for the three months ended September 30, 2002. The increase in revenue in the United States for the three months ended September 30, 2003 is the result of the implementation of the company's new unit sale business model in 2003.

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Cost of Goods Sold

The Company incurred cost of goods sold of \$53,473 for the three months ended September 30, 2003, most of which was incurred in the U.S. operation in the third quarter. Cost of goods sold for this period decreased by \$3,043, a 5.3% decrease compared to \$56,516 for the three months ended September 30, 2002.

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Operating Expense

The Company incurred selling expenses for the three months ended September 30, 2003 of \$357,384 mostly incurred in the U.S. operation. Selling expenses increased for the three months ended September 30, 2003 by \$328,881, a 1,154% increase compared to the selling expense of \$28,503 for the three months ended September 30, 2002. The increase is discussed in the section "Operating Expenses" of "Nine Months Ended September 30, 2003 Compared to Nine Months Ended September 30, 2002".

The Company incurred general and administrative expenses for the three months ended September 30, 2003 of \$478,121, consisting of \$454,077 in the U.S. operation and 24,044 in China. General and administrative expenses for the three months ended September 30, 2003 decreased by \$404,434, a 45.8% decrease compared to \$822,555 for the same period in 2002. This decrease was due to the change in the Company's sales policies that resulted in the reporting of certain expenses as selling expenses rather than as general and administrative expenses, the significant cutting of expenses in China through a reduction in staff and office space, and the overall reduction of administrative expenses.

Net Loss/Operating Income

The Company had a net loss in its operations for the three months ended September 30, 2003 of \$563,996 compared with a net loss of \$657,923 for the same period in 2002. The net loss decrease amounted to \$93,927 or 14.27% compared to the same period in 2002. The decrease in net loss resulted from significant efforts to reduce general and administrative expenses in the U.S. and China operations, combined with reduced non-cash general and administrative items in the three months ended September 30, 2003.

LIQUIDITY AND CAPITAL RESOURCES

As of September 30, 2003, the Company reported that net cash used in operating activities was \$1,118,564, net cash provided by financing activities was \$1,027,062 and net cash used in investing activities was \$31,362. The Company had a negative working capital of approximately \$2,280,500 as of September 30, 2003.

Compared to approximately \$1,216,000 of net cash used in operating activities in the period ended September 30, 2002, the Company's current year net cash used in operating activities decreased by approximately \$98,000 to \$1,118,564. This decrease was the result of continuing efforts of the Company

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to reduce expenses through the refinement of its business plan and the reduction of salaries at the senior management level and general office expenditures.

Changes in accounts receivable in this current period in 2003 resulted in a cash increase of approximately \$133,000, compared to a cash decrease in receivables of approximately \$32,000 for the same period in 2002, having a net result of an increase of \$164,236. The increase in accounts payable and accrued liabilities in the period ended September 30, 2002 contributed to a cash increase of \$389,216, whereas the changes in accounts payable and accrued liabilities for the current period in 2003

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amounted to an increase in cash of \$728,498. The Company has adopted and will keep implementing cost cutting measures to lower the Company's 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 the Company's cash requirements in the period ended September 30, 2003, and the Company had to rely on equity financing to cover expenses.

The Company's cash used in investing activities was approximately \$32,000 for computer equipment in the United States.

The Company's net cash provided by financing activities for the period ended September 30, 2003 was approximately \$1,027,000. New cash provided by financing activities for the same period in 2002 was approximately \$1,973,000, for a net decrease of approximately \$946,000. The decrease was due to limiting financing activities to the issuance of Series J preferred stock in this current period.

The financing proceeds were used for working capital purposes. Notwithstanding total cash proceeds of approximately \$1,027,000, the Company owed approximately \$147,000 as of September 30, 2003 for Warner Bros. license guaranteed royalty payments. The Company will not seek another license from Warner Bros. for China. This decision is based upon the lack of sales in the Company's China markets and what the Company perceives 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.

Going forward, the Company's primary requirements for cash consist of (1) the continued development of its business in the United States and on an international basis; (2) general overhead expenses for personnel to support the new business activities; and (3) payments of guaranteed royalty payments to third parties for existing and future licensing agreements. The Company estimates that the Company's need for financing to meet the Company's cash needs for operations will continue to the second quarter of 2004, when cash supplied by operating activities may enable the Company to meet its anticipated cash requirements for operation expenses. The Company anticipates the need for additional financing in 2003 and 2004 to reduce the Company's liabilities and to improve its shareholders' equity. 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 \$225,000. The Company has incurred and continues to incur significant selling and other expenses in order to increase retail sales. 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 truckloads of product given the reduced per unit cost associated with 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. 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.

The Company is continuing to explore the sale of Slammers(TM) flavored milk in new and expanded markets, as well as combining this brand with the brands of third parties. In addition, the Company is developing its own new line of "extreme" flavored milks with distinctive packaging directed at a target market extending to twenty plus year old buyers. The Company introduced its "Extreme Slammers" at the National Association of Convenience Stores trade show in October 2003. "Extreme Slammers" utilizes well known professional "extreme sports" figures as the focus of its packaging and marketing.

Presently, the Company still is exploring and pursuing the school market through trade/industry shows and individual direct contacts. The implementation of such a school based program, however, still has not proved to be a viable aspect of the Company's business model, owing to the pricing of Slammers(TM) and the product positioning of Looney Tunes(TM) milk in middle and high schools. Efforts are ongoing to reduce the cost of the Slammers(TM) products for schools and to introduce "Extreme Slammers" in middle and high schools.

Warner Bros. Licenses

The Company holds five licenses for Looney Tunes(TM) characters and names from Warner Bros. Each license is structured to provide for the payment of guaranteed royalty payments to Warner Bros. The Company accounts for these guaranteed payments as debt and licensing rights as assets. The following is a summary of expiration dates and guaranteed royalty payments due to Warner Bros. as of September 30, 2003:

| License | Guaranty | Balance Due | Amount Past Due | Expiration Date |
|--------------|-----------|-------------|--------------------|--------------------|
| U.S. License | \$500,000 | \$ - | \$ - | 12/31/03 |
| U.S. TAZ | \$250,000 | \$ - | \$ - | N/A |
| China | \$400,000 | \$147,115 | \$147,115 | 06/30/03 |
| Mexico | \$145,000 | \$ - | \$ - | 05/31/04 |
| Canada | \$ 32,720 | \$ - | \$ - | 03/31/04 |

The China license had been extended to October 29, 2003 by agreement of the parties and the Company will not seek another license from Warner Bros. for China. This decision is based upon the lack of sales in the Company's China markets and what the Company perceives 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.

The history of the Company with Warner Bros. licenses, as a function of sales of the flavored milks, has not supported the guaranteed royalty structure required by Warner Bros. for its licenses. In the third quarter 2002, the Company decided to develop the Slammers(TM) brand, with the prospect of creating its own independent brand, which could be combined with other third party "promotional" type licensed properties. The Company officially launched a dual branded Slammers(TM) and Looney Tunes(TM)

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product in the first quarter 2003. In October 2003, the Company introduced its own non-Looney Tunes(TM) "Extreme Slammers" product, and anticipates the launch of a dual branded Slammers(TM) with a non-Warner Bros. third party licensed property in the first quarter 2004. At present, the Company is engaged in an analysis of whether it will seek to extend any of its licenses with Warner Bros.

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DEBT STRUCTURE

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 has 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 different interest calculation. International Paper imposed a charge of \$57,000 to renegotiate the note owing the failure of Hangzhou Meilijian to pay for certain packing material, worth more than \$57,000 in 1999. The current outstanding balance is \$187,743. The Company is delinquent in its payments under this note.

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, 2000, the parties agreed to extend the maturity dates until the completion of the anticipated Series H financing. On June 18, 2002, the respective promissory note maturity dates were extended by agreement of the parties to December 31, 2002. On June 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 June 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.

On August 27, 2003, the Company received the proceeds of a loan from Mid-America Capital, L.L.C., in the amount of \$150,000. The note is payable November 25, 2003 and bears interest at the annual rate of 10%. This loan is secured by a general security interest in all the Company's assets.

EFFECTS OF INFLATION

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

EFFECT OF FLUCTUATION IN FOREIGN EXCHANGE RATES

The Company's Shanghai subsidiary is located in China. It buys and sells products in China using Chinese renminbi as the functional currency.

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Based on Chinese government regulation, all foreign currencies under the category of current account are allowed to freely exchange with hard currencies. During the past two years, the China operations have not been significant. There were no significant changes in exchange rates.

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PART II - OTHER INFORMATION

Item 2. Changes in Securities and Use of Proceeds

Quarter Ended September 30, 2003

On August 12, 2003, the Company issued 1,200,000 shares of common stock upon the conversion of 6,542 shares of Series G Convertible Preferred. The conversions were based upon notices of conversion received in June and July 2003, and was delayed in order to determine the accuracy of the conversion variables contained in the respective notices of conversion. The conversion-based issuances of common were as follows:

The Company issued 200,000 shares of common stock to Keshet, LP, upon the conversion of 1,209 shares of Series G Convertible Preferred, at a conversion price of \$0.076. The conversion included accrued and unpaid dividends on the preferred converted.

The Company issued 200,000 shares of common stock to The Keshet Fund, LP, upon the conversion of 1,209 shares of Series G Convertible Preferred, at a conversion price of \$0.076. The conversion included accrued and unpaid dividends on the preferred converted.

The Company issued 150,000 shares of common stock to The Keshet Fund, LP, upon the conversion of 773 shares of Series G Convertible Preferred, at a conversion price of \$0.0653. The conversion included accrued and unpaid dividends on the preferred converted.

The Company issued 250,000 shares of common stock to Keshet, LP, upon the conversion of 1,289 shares of Series G Convertible Preferred, at a conversion price of \$0.0653. The conversion included accrued and unpaid dividends on the preferred converted.

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The Company issued 200,000 shares of common stock to Talbiya B. Investments, Ltd., upon the conversion of 1,031 shares of Series G Convertible Preferred, at a conversion price of \$0.0653. The conversion included accrued and unpaid dividends on the preferred converted.

The Company issued 200,000 shares of common stock to Neshet. Ltd., upon the conversion of 1,031 shares of Series G Convertible Preferred, at a conversion price of \$0.0653. The conversion included accrued and unpaid dividends on the preferred converted.

On September 15, 2003, the Company issued 213,750 shares of common stock to Michael Willms, upon the conversion of 7,500 shares of Series H Convertible Preferred, at the fixed conversion price of \$0.40. The conversion included accrued and unpaid dividends on the preferred converted.

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On September 29, 2003, the Company issued 70,938 shares of common stock to The Dennis H. Willms Irrevocable Trust, Michael Willms, Trustee, upon the conversion of 2,500 shares of Series H Convertible Preferred, at the fixed conversion price of \$0.40. The conversion included accrued and unpaid dividends on the preferred converted.

Item 6. Exhibits and Reports on Form 8-K

None

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 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, 2003), 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 material weaknesses in such disclosure controls and procedures requiring corrective actions. As a result, no corrective actions were taken.

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: December 23, 2003

/s/Roy G. Warren

Roy G. Warren, Chief Executive Officer

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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 | Chief Executive Officer and Director | December 23, 2003 |
| /S/ Tommy E. Kee | Chief Financial Officer | December 23, 2003 |

