

Edgar Filing: BRAVO FOODS INTERNATIONAL CORP - Form 10QSB

BRAVO FOODS INTERNATIONAL CORP
Form 10QSB
May 15, 2006

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-QSB

QUARTERLY OR TRANSITIONAL REPORT

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

For the Quarterly Period Ended March 31, 2006

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

Commission File Number 000-25039

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

formerly
China Premium Food Corporation

Delaware 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 |
|--------------|--------------|--------------------|
| May 12, 2006 | Common Stock | 189,152,148 |

Transitional Small Business Disclosure Format (Check One) YES NO

BRAVO! FOODS INTERNATIONAL CORP.

TABLE OF CONTENTS

PART I. FINANCIAL INFORMATION

Item 1. Financial statements

Edgar Filing: BRAVO FOODS INTERNATIONAL CORP - Form 10QSB

| | |
|--|-----|
| Consolidated balance sheets as of March 31, 2006 (unaudited) and December 31, 2005 | F-1 |
| Consolidated statements of operations (unaudited) for the three months ended March 31, 2006 and 2005 | F-3 |
| Consolidated statements of cash flows (unaudited) for the three months ended March 31, 2006 and 2005 | F-4 |
| Notes to consolidated financial statements (unaudited) | F-5 |
| Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations | 12 |
| Item 3. Controls and Procedures | 20 |
| PART II - OTHER INFORMATION | |
| Item 2. Unregistered Sales of Equity and Use of Proceeds | 21 |
| Item 6. Exhibits | 21 |
| SIGNATURES | 21 |
| EXHIBITS | 22 |

BRAVO! FOODS INTERNATIONAL CORP. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

| | March 31, 2006 ----- (unaudited) | December 31, 2005 ----- |
|--|---|-------------------------------|
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 609,785 | \$ 4,947,986 |
| Accounts receivable net of allowances for doubtful accounts of \$364,941 and \$350,000 for 2006 and 2005, respectively | 1,537,858 | 3,148,841 |
| Inventories -- finished goods | 3,043,914 | 391,145 |
| Prepaid expenses | 1,950,406 | 978,299 |
| | ----- | ----- |
| Total current assets | 7,141,963 | 9,466,271 |
| Furniture and equipment, net | 514,913 | 288,058 |
| License rights, net | 245,263 | 241,898 |
| Trademarks, net | 78,440 | 70,015 |
| Deferred distribution costs, net | 11,205,833 | 11,503,333 |
| Manufacturing agreement, net | 2,557,896 | 2,700,000 |
| Deposits | 20,948 | 15,231 |
| | ----- | ----- |
| Total assets | \$21,765,256 ===== | \$24,284,806 ===== |

Edgar Filing: BRAVO FOODS INTERNATIONAL CORP - Form 10QSB

Liabilities and Capital Surplus

| | | |
|-------------------------------------|------------|------------|
| Current liabilities: | | |
| Note payable to International Paper | \$ 187,743 | \$ 187,743 |
| Note payable to Mid-Am Capital LLC | 112,480 | 112,480 |
| Note payable to Libra Finance | 43,750 | 43,750 |
| Note payable to Longview | 212 | 212 |
| Note payable to Osher | 6,462 | 6,462 |
| Note payable to GMAC | 55,210 | -- |
| Accounts payable | 7,997,907 | 5,962,623 |
| Accrued liabilities | 2,290,857 | 3,239,885 |
| | ----- | ----- |
| Total current liabilities | 10,694,621 | 9,553,155 |
| | | |
| Dividends payable | 1,301,134 | 1,240,682 |
| Notes payable | 109,797 | -- |
| | ----- | ----- |
| Total liabilities | 12,105,552 | 10,793,837 |
| | ----- | ----- |

F-1

BRAVO! FOODS INTERNATIONAL CORP. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

| | |
|--|---|
| | March 31, 2006 ----- (Unaudited) |
| Commitments and contingencies | |
| Capital Surplus (Note 2): | |
| Series B convertible, 9% cumulative, preferred stock, stated value \$1.00 per share, 107,440 shares issued and outstanding; redeemable at our option for \$107,440 plus dividends | 107,440 |
| Series H convertible, 7% cumulative preferred stock, stated value \$10.00 per share, 64,500 shares issued and outstanding | 349,037 |
| Series J convertible, 8% cumulative preferred stock, stated value \$10.00 per share, 200,000 shares issued and outstanding; redeemable at our option for 135% of stated value plus dividends | 1,854,279 |
| Series K convertible, 8% cumulative preferred stock, stated value \$10.00 per share, 95,000 shares issued and outstanding redeemable at our option for 120% of stated value plus dividends | 950,000 |
| Common stock, par value \$0.001 per share, 300,000,000 shares authorized, 185,753,753 and 184,253,753 shares issued and outstanding | 185,754 |
| Additional paid-in capital | 59,195,583 |
| Common stock subscription receivable | (10,000) |
| Deferred compensation expense | (403,697) |
| Accumulated deficit | (52,537,243) |
| Translation adjustment | (31,449) |
| | ----- |
| Total capital surplus | 9,659,704 |
| | ----- |
| Total liabilities and capital surplus | \$ 21,765,256 |

=====

See accompanying notes.

F-2

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

| | Three Months Ended March 31, | |
|--|------------------------------|----------------|
| | 2006 | 2005 |
| | ----- | ----- |
| | (unaudited) | (unaudited) |
| Revenue -- unit sales | \$ 3,561,215 | \$ 864,420 |
| Revenue -- gross kit sales | -- | 33,350 |
| | ----- | ----- |
| Total revenue | 3,561,215 | 897,770 |
| Cost of sales | (2,946,460) | (677,663) |
| | ----- | ----- |
| Gross margin | 614,755 | 220,107 |
| Selling expenses | 2,981,291 | 623,452 |
| Product development | 115,963 | 63,591 |
| General and administrative expense | 1,380,143 | 653,247 |
| | ----- | ----- |
| Loss from operations | (3,862,642) | (1,120,183) |
| Other income (expense) | | |
| Interest income | 15,420 | 65 |
| Interest expense | (38,350) | (117,130) |
| | ----- | ----- |
| Loss before income taxes | (3,885,572) | (1,237,248) |
| Provision for income taxes | -- | -- |
| | ----- | ----- |
| Net loss | (3,885,572) | (1,237,248) |
| Dividends accrued for Series B preferred stock | (2,384) | (2,384) |
| Dividends accrued for Series H preferred stock | (11,133) | (28,566) |
| Dividends accrued for Series I preferred stock | -- | (5,918) |
| Dividends accrued for Series J preferred stock | (39,452) | (39,452) |
| Dividends accrued for Series K preferred stock | (18,740) | (18,740) |
| | ----- | ----- |
| Net loss applicable to common shareholders | \$ (3,957,281) | \$ (1,332,308) |
| | ===== | ===== |
| Weighted average number of common shares outstanding | 184,253,753 | 59,618,018 |
| | ===== | ===== |
| Basic and diluted loss per share | \$ (0.02) | \$ (0.02) |
| | ===== | ===== |
| Comprehensive loss and its components consist of the following: | | |
| Net loss | \$ (3,885,572) | \$ (1,237,248) |
| Foreign currency translation adjustment | (690) | (8,216) |
| | ----- | ----- |
| Comprehensive loss | \$ (3,886,262) | \$ (1,245,464) |
| | ===== | ===== |

See accompanying notes.

BRAVO! FOODS INTERNATIONAL CORP. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

| | Three Months |
|---|----------------------|
| | 2006 |
| | ----- (unaudited) |
| Cash flows from operating activities: | |
| Net loss | \$ (3,885,572) |
| Adjustments to reconcile net loss to net cash used in operating activities: | |
| Depreciation and amortization | 684,642 |
| Stock issuance for compensation, finders' fee and due diligence fees | -- |
| Allowance for doubtful accounts | 14,941 |
| Loss on disposal of fixed assets | 1,999 |
| Changes in: | |
| Accounts receivable | 1,596,042 |
| Inventories | (2,652,769) |
| Prepaid expenses and other assets | (977,825) |
| Accounts payable and accrued expenses | 1,007,871 |
| Deferred product development costs | -- |
| | ----- |
| Net cash used in operating activities | (4,210,671) |
| | ----- |
| Cash flows from investing activities: | |
| Licenses and trademark costs | (163,536) |
| Purchase of equipment | (249,910) |
| | ----- |
| Net cash used in investing activities | (413,446) |
| | ----- |
| Cash flows from financing activities: | |
| Proceeds from conversion of warrants | 150,000 |
| Convertible notes payable | 169,323 |
| Payment of accrued dividends | (11,257) |
| Payment of notes payable | (4,317) |
| Registration costs for financing | (17,143) |
| | ----- |
| Net cash provided by financing activities | 286,606 |
| | ----- |
| Effect of changes in exchange rates on cash | (690) |
| | ----- |
| Net (decrease) increase in cash and cash equivalents | (4,338,201) |
| Cash and cash equivalents, beginning of period | 4,947,986 |
| | ----- |
| Cash and cash equivalents, end of period | \$ 609,785 |
| | ===== |

See accompanying notes.

Edgar Filing: BRAVO FOODS INTERNATIONAL CORP - Form 10QSB

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

Note 1 -- Basis of Presentation

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

Subject to the matters described in the "potential restatement disclosure" set forth below in this Note 1, 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, Item 310(b) of Regulation S-B and Article 2 of Regulation S-X. Accordingly, the accompanying financial statements do not include all the information and footnotes required by generally accepted accounting principles for complete financial statements. All significant inter company accounts and transactions have been eliminated in consolidation. The consolidated financial statements are presented in U.S. dollars. In the opinion of management, all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation have been included. Other adjustments, however, may be necessary based upon the considerations described under the "potential restatement disclosure" below. Operating results for the period ending March 31, 2006 are not necessarily indicative of the results that may be expected going forward.

Potential Restatement Disclosure

In December 2005, we began to examine the classification of, and our accounting methodology for, our convertible preferred and convertible debt financing. We initiated this examination as a result of a review by the Securities and Exchange Commission of our Form 10-KSB for the fiscal year ended December 31, 2004 and our pending SB-2 registration statement, which we filed with the SEC on December 21, 2005. We currently are examining the accounting methodology utilized to report the value of embedded derivatives associated with certain of our past financings, including the balance sheet reclassification and valuation of warrants associated with such financing instruments. Although we have not completed our examination, it is likely that potential changes will be made in the accounting treatment of these derivatives in that they will be have to be valued separately and fluctuations of value during applicable periods will be reflected on our past income statements and our balance sheets. Going forward, we are taking steps to avoid the recognition of the fair value fluctuations of such instruments and associated balance sheet reclassification in subsequent reporting periods, by eliminating, through an amendment, the variable conversion feature of one outstanding financing instrument, which may have had a "tainting" effect on all such instruments. We also are reviewing our accounting for the amortization of discounts, the impact of certain modifications to warrants and the beneficial conversion features associated with our various financing instruments.

Additionally, we are reviewing our accounting for employee stock options, including the fair value calculations made, the method of amortizing deferred compensation expense and the impact of modifications made to certain options. Also, as part of this review, the Staff at the Securities and Exchange Commission has requested that we restate our historical financial statements to reclassify shipping and handling costs from selling, general and administrative expense to cost of sales.

Edgar Filing: BRAVO FOODS INTERNATIONAL CORP - Form 10QSB

As a result of the matters described above, it is likely that we will restate our financial statements for the years ending December 31, 2005 and December 31, 2004. In addition, it is likely that we will

F-5

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

restate our interim financial statements for the quarterly periods reported in 2005 and 2004. These possible restatements will not affect or change our fundamental operational financial results for the reporting periods in question.

Going Concern

As shown in the accompanying consolidated financial statements, we have suffered operating losses and negative cash flow from operations since inception and have an accumulated deficit of \$52,537,243 negative working capital of \$3,552,658 and we are delinquent on certain of our debts at March 31, 2006. Further, our auditors stated in their report on our Consolidated Financial Statements for the period ending December 31, 2005 that these conditions raise substantial doubt about our ability to continue as a going concern. Management plans to increase gross profit margins in our U.S. business, grow our international business, obtain additional financing and continue the implementation of our Master Distribution Agreement with Coca-Cola Enterprises Inc. While there is no assurance that funding will be available or that we will be able to improve our profit margins, we are continuing to actively seek equity and/or debt financing.

Note 2. -- Significant Accounting Policies

Revenue Recognition

United States

In the United States, we utilize third party processors to produce our products on our behalf, which products consisted of single serve flavored milk based beverages. Under this model, we are responsible for all product development, marketing, and promotion, advertising and sales activity. We refer to this business model as "unit sales".

We have responsibility for the payment to our third-party processor for all costs associated with the production of our flavored milk based beverages. In that regard, we pay a negotiated "dock price" per sale unit to our third-party processor. We also are responsible for the payment of all freight charges for the finished product to our customers, shipping insurance charges, broker's fees and product returns.

Our milk-based products are code dated with an "expiration" date. If our third-party processor has stored inventory that approaches code date and is, as a result, not capable of being sold, we are responsible for the payment of the dock price to the third-party processor even absent a sale. If already shipped product is not sold by a date approaching the code date or has been damaged in shipment, we issue a credit to our customer.

We establish the wholesale price at which we sell our products. The price charged is dependent upon practical cost variables including freight and distribution. We recognize revenue at the full wholesale price charged.

Edgar Filing: BRAVO FOODS INTERNATIONAL CORP - Form 10QSB

We have sole discretion to change the product visually and its content to satisfy our specifications. The only limitations are (i) those imposed on the third party processor by the Food and Drug Administration and local health officials, and (ii) labeling and content restrictions that the FDA may impose on us.

We have the sole discretion to select the supplier of flavor and nutritional ingredients that are sourced by third parties to meet our flavor and nutritional profile specifications. Similarly, we have the

F-6

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

sole discretion to develop and determine the visual and content specifications for our products. The only limitations are those imposed by third party license agreements concerning the visual utilization of trademark issues.

We take title to product upon its removal from quality control quarantine by our third-party processor. We have insurance coverage during our ownership, and we are responsible for inventory loss. The point of transfer of title to the inventory is manifested by the physical removal of the inventory from our third-party processor's quality control quarantine to its warehouse, where the risk of loss passes to us. Contemporaneous with that event, the third-party processor invoices us for the product, which becomes our finished goods inventory. We bear the risk of loss of non-payment by our customers.

Purchasers of our product pay the "wholesale level" price directly to our third party processor, which we have appointed as our billing and collection agent for such purposes. Our third-party processor charges us a fee for this service. As agent, the third-party processor provides us with an out-sourced infrastructure for billing, collection, shipment, and recording of credits to customers allowed by us for promotions, discounts and returns. On a monthly basis, we reconcile with our third-party processor (i) the revenue received, (ii) the dock price, (iii) administration charges and (iv) separate charges against our account for allowed credits to customers for promotions, discounts and returns.

We record the full wholesale level price as our gross revenue and record the dock price as the cost of goods sold. In certain circumstances in our U.S. business, we are required to pay slotting fees, give promotional discounts or make marketing allowances in order to secure wholesale customers. These payments, discounts and allowances reduce our reported revenue in accordance with the guidelines set forth in EITF 01-9 and SEC Staff Accounting Bulletin No. 104

International Sales

We have two business models for our international sales. In the United Kingdom, our business model tracks the model used by us in the United States, and we utilize third party processors to produce our products on our behalf, which products consist of single serve flavored milk based beverages. The operational infrastructure for this business is provided pursuant to an agency contract with a third party, who is responsible as our agent for all aspects of our sales, distribution, marketing, billing and collections once our products are shipped from the processor. All of these activities are done on behalf of our wholly owned UK subsidiary, Bravo! Brands (UK) Ltd., and we recognize

Edgar Filing: BRAVO FOODS INTERNATIONAL CORP - Form 10QSB

revenue on the same basis as our US unit sales business model.

Under our Middle East business model, however, we are not involved in the marketing, promotion, advertising or sales of the products. These activities are the responsibility of regional dairy processors located in foreign countries that produce and sell the milk products for their own behalf. In this international business, the "product" sold by us is not our flavored milk based beverages but consists of (i) the flavor ingredients used to produce the milk products and (ii) production rights granted to the regional processors to use the milk product branding and trade dress created by us for our flavored milk products. We refer to this business model as "kit sales".

Under this kit model, we purchase the flavor ingredients from our suppliers and have the ingredients shipped directly to the processor to expedite the production of the flavored milk products. The supplier for the flavor ingredients invoices us, and we include the amount of that invoice in our kit price to the processor. At no time is the processor responsible to the supplier for the cost of the ingredients shipped to it.

F-7

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

We recognize revenue in our international kit sales business at the gross amount of our invoices for the sale of kits at the time of shipment of flavor ingredients to processor dairies with which we have production contracts for extended shelf life and aseptic long life milk. We base this recognition on our role as the principal in these transactions, our discretion in establishing kit prices (including the price of flavor ingredients and production rights fees), our development and refinement of flavors and flavor modifications, our discretion in supplier selection and our 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 us to the processors for production rights. We formulate the price of production rights to cover our 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. We recognize revenue on the gross amount of "kit" invoices to the dairy processors and simultaneously record as cost of goods sold the cost of flavor ingredients paid by us 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.

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

Loss Per Common Share:

Basic earnings per share is calculated by dividing income available to common shareholders by the weighted average number of shares of common stock outstanding during the period. Diluted earnings per share is calculated by dividing income available to common shareholders by the weighted average number of common shares outstanding for the period adjusted to reflect potentially dilutive securities. In accordance with SFAS No. 128 "Earnings Per Share" (SFAS No. 128), we have not included the effect of potential exercises of stock options and warrants or the conversion features of our convertible preferred

Edgar Filing: BRAVO FOODS INTERNATIONAL CORP - Form 10QSB

and convertible debt outstanding at March 31, 2006 and 2005. As such, we have not included 110,362,179 and 146,156,178 shares of common stock equivalents, respectively, in the computation of diluted loss per share for those periods, as they were anti-dilutive.

Note 3 -- Stock Based Compensation Plans

We grant stock options for a fixed number of common shares to employees and directors from time to time. As of March 31, 2006, approximately 1,475,000 shares are available for future issuance under our stock option plan.

Effective January 1, 2005, we adopted the fair value recognition provisions of FASB Statement No. 123, Accounting for Stock-Based Compensation ("SFAS No. 123") to account for employee stock options. Accordingly, compensation cost was recognized in the Consolidated Statement of Operations based on the vesting period of the underlying options. Prior to January 1, 2005, we accounted for employee stock options using the intrinsic value method under the provisions of APB Opinion No. 25 Accounting for Stock Issued to Employee, and no compensation expense was recognized prior to January 1, 2005.

Effective January 1, 2006, we adopted SFAS No. 123(R), Share-Based Payment (SFAS No. 123(R)), which is a revision of SFAS No. 123, using the modified prospective transition method. Under this method, compensation cost recognized for the three months ended March 31, 2006 included compensation cost for all share-based payments modified or granted prior to, but not yet vested as of, January 1, 2006, based on the grant date fair value estimated in accordance with the original provisions of SFAS No. 123. No options were granted during the first quarter of 2006. Results for periods prior to December 31, 2005 have not been restated.

We recorded compensation expense of \$72,000 for the three months ended March 31, 2006 resulting from the issuance and vesting of options during that period. No compensation expense was recorded for the three months ended March 31, 2005 due to the fact that all options granted prior to the beginning of that quarter were fully vested and no options were granted during that quarter. We recognized no tax benefit for share-based compensation arrangements due to the fact that we are in a

F-8

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

cumulative loss position and recognize no tax benefits in our Consolidated Statement of Operations.

We calculate the fair value of employee stock options using a Black-Scholes-Merton option pricing model at the time the stock options are granted and amortize that value to expense over the option's vesting period using the straight-line attribution approach. The fair value for employee stock options for the three months ended March 31, 2006 was calculated based on the following assumptions:

| | First Quarter 2006 |
|--------------------------|--------------------------|
| Expected term (in years) | 2.25 |
| Risk-free interest rate | 3.75% |
| Expected volatility | 106% |

Edgar Filing: BRAVO FOODS INTERNATIONAL CORP - Form 10QSB

Expected dividend yield 0.0%

As required by SFAS No. 123R, we now estimate forfeitures of employee stock options and recognize compensation cost only for those awards expected to vest. Forfeiture rates are determined for two groups of employees, directors/senior management and all other employees, based on historical experience. Estimated forfeitures are adjusted to actual forfeiture experience as needed. The cumulative effect of adopting SFAS No. 123(R) of \$17,000, which represents estimated forfeitures for stock option grants outstanding at the date of adoption, was not material and therefore has been recorded as a reduction in stock-based compensation expense rather than displayed separately as a cumulative change in accounting principle in the Condensed Consolidated Statement of Operations. The adoption of SFAS No. 123(R) had no effect on cash flow from operating activities or cash flow from financing activities for the three months ended March 31, 2006.

As we had previously adopted the provisions of SFAS No. 123 effective January 1, 2005, prior year pro forma disclosure is not applicable.

The following table summarizes information related to our stock option activity for the three months ended March 31, 2006:

| | Shares | Weighted Average Exercise Price |
|-------------------------------------|------------|--|
| | ----- | ----- |
| Outstanding as of December 31, 2005 | 10,358,459 | \$ 0.31 |
| Granted | 0 | \$ |
| Exercised | 0 | \$ |
| Forfeited | (155,000) | \$ 0.75 |
| | ----- | |
| Outstanding as of March 31, 2006 | 10,203,459 | \$ 0.31 |
| | ----- | |
| Exercisable as of March 31, 2006 | 4,251,991 | \$ 0.39 |
| | ----- | |

F-9

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

The following table summarizes information about options outstanding and exercisable as of March 31, 2006:

| Range of Exercise Prices | Options Outstanding | | Options Exercisable | |
|--------------------------------|---|------------|--|--|
| | Weighted Average Remaining Contractual Life (Years) | Shares | Weighted Average Exercise Price | Weighted Average Exercise Price |
| ----- | ----- | ----- | ----- | ----- |
| \$0.20 to \$0.35 | 8.8 | 9,308,459 | \$ 0.25 | 3,356,991 |
| \$0.60 to \$2.00 | 7.9 | 895,000 | \$ 0.93 | 895,000 |
| | ----- | | | |
| | 8.7 | 10,203,459 | \$ 0.31 | 4,251,991 |
| | ----- | | | |

Edgar Filing: BRAVO FOODS INTERNATIONAL CORP - Form 10QSB

The total intrinsic value of options outstanding and options exercisable was \$2,813,580 and \$998,382, respectively as of March 31, 2006.

As of March 31, 2006, there was \$387,000 of total unrecognized compensation cost related to non-vested stock options, which is expected to be recognized, on a straight-line basis through May 2007.

Note 4 -- Transactions in Capital

On March 31, 2005, we received notices of exercise for and issued to Alpha Capital AG 1,000,000 shares of common stock as provided in our June 2004 A Warrant and 500,000 shares of our October 2004 C Warrant. These Warrants were exercised at a price of \$0.10 per share. The shares of common stock underlying these Warrants were registered pursuant to a registration statement declared effective April 18, 2005.

Note 5 -- Business Segment and Geographic Information

We operate principally in the single serve flavored milk industry segment, under two distinct business models. In the United States and the United Kingdom we are responsible for the sale of finished Slammers[R] and Bravo![] flavored milks (referred to as "unit sales") to retail outlets. For these unit sales, we recognize as revenue the invoiced wholesale prices that we charge to the retail outlets or distributors that purchase our flavored milks. In countries other than the United States and the United Kingdom, our

F-10

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

revenue is generated by the sale of kits to dairy processors. Each kit consists of flavor ingredients for our Slammers[R] flavored milks and production rights to manufacture and sell the milks. In line with our revenue recognition policies, we recognize the full invoiced kit price as revenue and record our cost to purchase the flavor ingredients as cost of goods sold. We currently sell kits to a third party dairy processor located in Oman, for distribution to nine Middle Eastern countries.

Note 6 -- Subsequent Events

On April 13, 2006, we issued 457,125 shares of common stock to Longview Fund, LP pursuant to a notice of conversion of interest and premium associated with our June 2004 convertible note. The common stock underlying this note was registered pursuant to a registration statement declared effective on April 18, 2005.

On April 17, 2006 we issued 807,692 shares of common stock underlying our Series F Warrant for 1,000,000 shares to Amro International, SA. These Warrants were exercised on a cashless basis, resulting in the cancellation of the entire Amro Series F Warrant. The shares of common stock underlying the Warrant was issued pursuant Regulation D.

On April 21, 2006, we issued 437,500 shares of common stock to Libra Finance, SA pursuant to notices of conversion our April, June and October 2004 convertible notes. The common stock underlying these notes was registered pursuant to a registration statement declared effective on August 3, 2004 and April 18, 2005, respectively.

On April 28, 2006 we issued 1,500,000 shares of common stock

Edgar Filing: BRAVO FOODS INTERNATIONAL CORP - Form 10QSB

underlying our April 2004 Warrant to Alpha Capital, SA. The shares of common stock underlying the Warrant were registered pursuant to a registration statement declared effective on August 3, 2004.

On April 28, 2006, we issued 196,078 shares of our common stock in a private placement, pursuant to Section 4(a) of the Securities Act of 1933, to Amro International, SA, an accredited investor. We received \$100,000 for these shares.

On May 12, 2006, we obtained financing in the amount of \$2,500,000 and issued a promissory note in that principal amount to two accredited investors. We also issued five year warrants for 1,500,000 shares of our common stock at an exercise price of \$0.80 per share in connection with this financing. The warrants and underlying common stock were issued pursuant to Regulation D.

F-11

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS - THREE MONTHS ENDED MARCH 31, 2006

FORWARD-LOOKING STATEMENTS

Statements that are not historical facts, including statements about our prospects and strategies and our 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. We caution that such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause our 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 our future profitability; the uncertainty as to whether our new business model can be implemented successfully; the accuracy of our performance projections; and our ability to obtain financing on acceptable terms to finance our operations until profitability.

OVERVIEW

Our business model includes the development and marketing of our Company owned Slammers[R] and Bravo![] trademarked brands, the obtaining of license rights from third party holders of intellectual property rights to other trademarked brands, logos and characters and the production of our branded flavored milk drinks through third party processors. In the United States and the United Kingdom, we generate revenue from the unit sales of finished branded flavored milk drinks to retail consumer outlets. We generate revenue in our Middle East 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.

Our new product introduction and growth expansion continues to be expensive, and we reported a net loss of \$3,885,572 for the period ended March 31, 2006. As shown in the accompanying financial statements, we have suffered operating losses and negative cash flows from operations since inception and, at March 31, 2006, have an accumulated deficit of \$52,537,243. These conditions give rise to substantial doubt about our ability to continue as a going concern. As discussed herein, we plan to work toward profitability in our U.S. and international business and obtain additional financing. While there is no

Edgar Filing: BRAVO FOODS INTERNATIONAL CORP - Form 10QSB

assurance that funding will be available or that we will be able to improve our operating results, we are continuing to seek equity and/or debt financing. We cannot give any assurances, however, that management will be successful in carrying out our plans.

CORPORATE GOVERNANCE

The Board of Directors

Our board has positions for seven directors that are elected as Class A or Class B directors at alternate annual meetings of our shareholders. Six of the seven current directors of our board are independent. Our chairman and chief executive officer are separate. The board meets regularly either in person or by telephonic conference 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, review our 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 our Chief Executive Officer and Chief Accounting Officer. Our shareholders elect directors after nomination by the board, or the board appoints directors when a vacancy

12

arises prior to an election. This year we have adopted a nomination procedure based upon a rotating nomination committee made up of those members of the director Class not up for election. The board presently is examining whether this procedure, as well as the make up of the audit and compensation committees, should be the subject of an amendment to the by-laws.

Audit Committee

Our audit committee is composed of three independent directors and functions to assist the board in overseeing our accounting and reporting practices. Our financial information is recorded in house by our Chief Accounting Officer's office, from which we prepare financial reports. Lazar Levine & Felix LLP, independent registered public accountants and auditors, audit or review these financial reports. Our Chief Accounting Officer reviews the preliminary financial and non-financial information prepared in house with our securities counsel and the reports of the auditors. The committee reviews the preparation of our audited and unaudited periodic financial reporting and internal control reports prepared by our Chief Accounting Officer. The committee reviews significant changes in accounting policies and addresses issues and recommendations presented by our internal accountants as well as our auditors.

Compensation Committee

Our compensation committee is composed of three independent directors and reviews 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 our other members of management and the recommendations of the chief executive officer with respect to the compensation of those individuals. Given the size of our company, the board periodically reviews all such employment contracts. The board must approve all compensation packages that involve the issuance of our stock or stock options. Currently, there is one vacancy on the compensation committee.

Nominating Committee

Edgar Filing: BRAVO FOODS INTERNATIONAL CORP - Form 10QSB

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 our consolidated financial condition and results of operations are based on our 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 us 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, we evaluate our company's estimates, including those related to reserves for bad debts and valuation allowance for deferred tax assets. We base our 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. Our use of estimates, however, is quite limited as we have adequate time to process and record actual results from operations.

13

Revenue Recognition

We have two business models that affect revenue recognition: one for the United States and the United Kingdom and another for our international business in the Middle East. We follow 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 determining our revenue recognition reporting status for both business models. See Note 1 to the Financial Statements.

Slotting Fees

From time to time, we enter into arrangements with new customers whereby, in exchange for cash payments to our customers, we obtain rights to place our products on customers' shelves for resale at retail. We also engage in promotional discount programs in order to enhance sales in specific channels. We believe our participation in these arrangements is essential to ensuring continued volume and revenue growth in the competitive marketplace. These payments, discounts and allowances reduce our reported revenue in accordance with the guidelines set forth in EITF 01-9 and SEC Staff Accounting Bulletin No. 104.

We record our obligation under each arrangement at inception and amortize the total required payments using the straight-line method over a term of one year, which is normally the minimum time that we are allowed to sell our products in given retail outlets. We record the balance of the amortized slotting fee not used in the current period as prepaid expenses. As we apply the amortized slotting fee as contra revenue for a current period, we reduce

Edgar Filing: BRAVO FOODS INTERNATIONAL CORP - Form 10QSB

the reported gross revenue by an amount equal to the reduction in such prepayments.

Classification of Financial Instruments with a Convertible Feature

In determining whether the conversion feature of our financial instruments would be classified in stockholder's equity, we examine the guidance of Paragraph 4 of EITF 00-19, which provides two avenues of analysis. First, if the characteristics of the financial instrument constitute a "conventional" convertible instrument, the instrument qualifies for the scope exception of paragraphs 11(a) and 12 (c) of Statement 133, the conversion feature is not considered a derivative for the purposes of Statement 133. In order to determine whether the instrument is "conventional", we analyze whether it would constitute stockholders' equity as a freestanding derivative. Second, absent the "conventional" instrument classification and the resultant scope exception, we analyze whether the instrument meets the equity condition requirements of paragraphs 12 - 32 of EITF 00-19. Issue 00-19's classification provisions are based on an issuer's control over the form of ultimate settlement of an instrument. An issuer is deemed to control the form of settlement if it has both the contractual right to settle in equity shares and the ability to deliver equity shares. When an issuer controls the form of settlement, an instrument is generally classified as equity. If an issuer does not control the form of settlement of an instrument, net-cash settlement is assumed and the instrument is classified as an asset or liability (paragraphs 12, 13 of EITF 00-19).

We examine the general pronouncements contained in paragraphs 12 and 13 EITF 00-19 prohibiting equity classification where net cash settlement or a cash payment for physical settlement could occur, in light of the eight conditions discussed in paragraphs 14 -- 32 of EITF 00-19. If these conditions are satisfied, then equity classification is appropriate. The eight conditions are:

- o The instrument permits the issuer to settle in unregistered shares (paragraphs 14 -- 18)
- o The issuer has sufficient authorized shares available to settle in its shares (paragraph 19)
- o The instrument contains an explicit limit on the number of shares to be delivered in a share settlement (paragraphs 20 -- 24)

14

- o There are no cash payments to the counterparty in the event that the issuer fails to make timely filings with the SEC (paragraph 25)
- o There are no cash settled "top-off" or "make whole" provisions (paragraph 26)
- o The contract requires net-cash settlement only where in the circumstances the holders of shares underlying the instrument also would receive cash in exchange for shares (paragraph 27 - 28)
- o There are no provisions giving the counterparty greater rights than those of a shareholder of the stock underlying the instrument (paragraph 29 - 31)
- o There is no requirement to post collateral for any reason (paragraph 32)

Edgar Filing: BRAVO FOODS INTERNATIONAL CORP - Form 10QSB

Our analysis of these considerations requires us to exercise our judgment within the stated guidelines in making our determination as to whether a particular financial instrument is appropriately classified as equity or a liability or asset.

POTENTIAL RESTATEMENT DISCLOSURE

On December 1, 2005, the Exchange Commission ("SEC") issued a comment letter concerning a limited number of accounting issues associated with our Form 10-KSB for the year ended December 31, 2004 (the "Initial Comment Letter"). In an effort to satisfy our registration requirements, on December 21, 2005, in accordance with a Registration Rights Agreement associated with our November 2005 financing, we filed a registration statement registering the Shares and the shares of common stock underlying the Warrants issued in connection with the financing with the SEC, as well as a response letter addressing the seven comments discussed by the SEC in the Initial Comment Letter.

On December 1, 2005, the SEC's Division of Corporation Finance issued guidance on the application of EITF 00-19 ("Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company's Own Stock") and FAS 133 to financial instruments containing an embedded conversion feature, such as convertible preferred stock, convertible notes and associated warrants. Since then, many companies have been contacted by the SEC for review of accounting issues relating to FAS 133 and EITF 00-19.

In general, EITF 00-19 requires that certain types of convertible equity instruments to be reclassified as liabilities in cases where the issuer's ability to settle the instrument in equity is not entirely within the issuer's control. The standard also requires, if liability classification is determined to be appropriate, that the instrument be valued separately with future fluctuations of value reflected on the income statement. As we have financed our operations with various convertible instruments over the last several years, we were required to work through each of our financings in order to ensure the proper treatment under EITF 00-19.

As a result of the SEC's comment December 1, 2005 comment letter, we immediately began to examine the classification of and our accounting methodology for our convertible preferred and convertible debt financing. Based upon comments from the SEC Staff, we believe that our classification of our convertible preferred stock and convertible notes as equity or liabilities will not change. We currently are examining the accounting methodology utilized to report the value of embedded derivatives associated with our financing instruments, including the balance sheet reclassification and valuation of warrants associated with such financing instruments. Potential changes likely will occur in the accounting treatment of these derivatives in that they will have to be valued separately, and fluctuations of value will be reflected on our past income statements and our balance sheets. Going forward, we have taken steps to avoid the recognition of the fair value fluctuations of such instruments, and associated balance sheet reclassification, in subsequent reporting periods, by eliminating, through an amendment, the variable conversion feature of one financing instrument, which may have had a "tainting" effect on all

such instruments. We also are reviewing our accounting for the amortization of discounts, the impact of certain modifications to warrants and the beneficial conversion features associated with our various financing instruments.

Edgar Filing: BRAVO FOODS INTERNATIONAL CORP - Form 10QSB

Additionally, we are reviewing our accounting for employee stock options, including the fair value calculations made, the method of amortizing deferred compensation expense and the impact of modifications made to certain options. Lastly, the Staff of the SEC has requested that we restate our historical financial statements to reclassify shipping and handling costs from selling expense to cost of sales.

As a result of the items described above, it is likely that we will restate our financial statements for the years ending December 31, 2005 and December 31, 2004. In addition, it is likely that we will restate our interim financial statements for the quarterly periods reported in 2005 and 2004. These possible restatements will not affect or change our fundamental operational financial results for the reporting periods in question.

RESULTS OF OPERATIONS

Financial Condition at March 31, 2006

As of March 31, 2006, we had an accumulated deficit of \$52,537,243, cash on hand of \$609,785 and reported total capital surplus of \$9,659,704.

For this same period of time, we had revenue of \$3,561,215 and general and administrative expense of \$1,380,143.

After interest expenses of \$38,350, cost of goods sold of \$2,946,460, product development costs of \$115,963 and selling expenses of \$2,981,291 incurred in our operations, we had a net loss of \$3,885,572.

Three Months Ended March 31, 2006 Compared to Three Months Ended March 31, 2005

Consolidated Revenue

We had revenues for the three months ended March 31, 2006 of \$3,561,215, with cost of sales of \$2,946,460, resulting in a gross margin of \$614,755. This revenue and resultant gross margin is net of slotting fees and promotional discounts for this period in the amount of \$279,973. Of the reported \$3,561,215, U.S. sales accounted for \$3,531,352 with an additional \$29,863 from sales in the United Kingdom. We did not have revenue in this period in the Middle East. Our reported revenue for the three months ended March 31, 2006 increased by \$2,663,445, a 296.67% increase compared to revenue of \$897,770 for the same period in 2005. This increase is the result of an increase in market penetration and distribution, owing to the continued implementation of our Master Distribution Agreement with Coco-Cola Enterprises in the last quarter of 2005 and the first quarter of 2006.

Consolidated Cost of Sales

We incurred cost of goods sold of \$2,946,460 for the three months ended March 31, 2006, \$2,812,587 of which was incurred in our U.S. business and \$133,873 of which was incurred in our United Kingdom operations. Cost of goods sold in this period increased by \$2,268,797, a 334% increase

16

compared to \$677,663 for the same period in 2005. The increase in cost of goods sold reflects an increase in sales and the concomitant increase in reported cost of goods sold associated with that increase.

Segmented Revenues and Costs of Sales

Edgar Filing: BRAVO FOODS INTERNATIONAL CORP - Form 10QSB

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 and the United Kingdom, revenues for the period ended March 31, 2006 were generated by kit sales to third party processors. Our revenue from the sale of finished product to retail outlets is recorded as "unit sales" on the following table.

| Three Months Ended March 31, 2006 | United States ----- | United Kingdom ----- | Middle East ----- |
|--------------------------------------|------------------------|----------------------------|----------------------|
| Revenue -- unit sales | \$ 3,531,352 | \$ 29,863 | \$ -- |
| Revenue -- gross kit sales | -- | -- | -- |
| | ----- | ----- | ----- |
| Total revenue | 3,531,352 | 29,863 | -- |
| Cost of goods sold | (2,812,587) | (133,873) | -- |
| | ----- | ----- | ----- |
| Gross margin | \$ 718,765 ===== | \$(104,010) ===== | \$ -- ===== |
| | | | |
| Three Months Ended March 31, 2005 | United States ----- | United Kingdom ----- | Middle East ----- |
| Revenue -- unit sales | \$ 864,420 | \$ -- | \$ -- |
| Revenue -- gross kit sales | -- | -- | 33,350 |
| | ----- | ----- | ----- |
| Total revenue | 864,420 | -- | 33,350 |
| Cost of goods sold | (675,050) | -- | (2,613) |
| | ----- | ----- | ----- |
| Gross margin | \$ 189,370 ===== | \$ -- ===== | \$ 30,737 ===== |

United States -----

Revenues for the period ended March 31, 2006 from unit sales in the United States increased from \$864,420 for the same period in 2005 to \$3,531,352 in 2006, a 308.52% increase. The increase is the result of an increase in market penetration and distribution, owing to the continued implementation of our Master Distribution Agreement with Coca-Cola Enterprises in the last quarter of 2005 and the first quarter of 2006.

In the period ended March 31, 2006, our gross margin for U.S. sales of \$718,765 increased by \$529,395, or by 279.55%, from \$189,370 for the same period in 2005. The increase in gross margin was the result of the increased sales and greater efficiencies in the production and distribution of our products.

Foreign Sales -----

Revenues for the period ended March 31, 2006 from sales in the United Kingdom commenced at the end of the second quarter of 2005. The cost of sales for the current period exceeded revenue by \$104,010.

This negative gross margin was the result of difficulties encountered in initial market penetration with new products introduced in the last half of 2005. We currently are re-examining our initial effort to penetrate this market in terms of available resources and product type, including packaging.

We did not make any kit sales to the Middle East for the period ended March 31, 2006. The third party dairy processor that has the right to produce and sell our products in the Middle East had created a large pipeline inventory of our products during 2005, which it has been selling during this current period.. We expect to resume kit sales to this processor during the second quarter of 2006.

Consolidated Operating Expenses

We incurred selling expenses of \$2,981,291 for the period ended March 31, 2006, of which \$2,901,005 was incurred in our United States operations. Our selling expense for this period increased by \$2,357,839, a 378.19% increase compared to our selling expense of \$623,452 for the same period in 2005. The increase in selling expenses in the current period was due to the hiring of additional sales staff and promotional charges associated with increased sales and our development of four new product lines.

We incurred general and administrative expenses for the period ended March 31, 2006 of \$1,380,143, of which \$1,358,431 was incurred in our United States business operations. Our general and administrative expenses for this period increased by \$726,896, a 111% increase compared to \$653,247 for the same period in 2005. The increase in general and administrative expenses for the current period is the result of the hire of additional staff and other costs associated with the management and implementation of our relationship with Coca-Cola Enterprises under the Master Distribution Agreement..

As a percentage of total revenue, our general and administrative expenses decreased from 72.8% in the period ended March 31, 2005, to 38.8% for the current period in 2006. We anticipate a continued effort to reduce these expenses as a percentage of sales through revenue growth, cost cutting efforts and the refinement of business operations.

Interest Expense

We incurred interest expense for the period ended March 31, 2006 of \$38,350. Our interest expense decreased by \$78,780, a 67.3% increase compared to \$117,130 for the same period in 2005. The decrease was due to our payment of debt instruments incurred in 2005 to finance our operations.

Loss Per Share

We accrued dividends payable of \$71,709 for various series of preferred stock during the period ended March 31, 2006. The accrued dividends decreased for this period by \$23,351, or 24.6%, from \$95,060 for the same period in 2005. The net loss before accrued dividends for the current period increased \$2,648,324, from \$1,237,248 for the period ended March 31, 2005 to \$3,885,572 for the current period. The increase in the net loss was offset by the increase in the weighted average number of common shares outstanding, resulting in no change in our current period loss per share of \$0.02.

LIQUIDITY AND CAPITAL RESOURCES

As of March 31, 2006, we reported that net cash used in operating activities was \$4,210,671, net cash provided by financing activities was

Edgar Filing: BRAVO FOODS INTERNATIONAL CORP - Form 10QSB

\$286,606 and net cash used in investing activities was \$413,446. We had a negative working capital of \$3,552,658 as of March 31, 2006.

18

Compared to \$1,099,760 of net cash used in operating activities in the period ended March 31, 2005, our current period net cash used in operating activities increased by \$3,110,911 to \$4,210,671. This increase was the result of increased depreciation and amortization, our utilization of cash rather than equity to pay service providers in this current period, and changes in inventory, prepaid expenses, accounts payable and accrued expenses. Included in the net loss in this current period were depreciation and amortization of \$684,643, compared to \$100,726 for the same period in 2005.

Changes in accounts receivable in this current period in 2006 resulted in a cash increase of \$1,596,042, compared to a cash increase in receivables of \$16,844 for the same period in 2005, having a net result of an increase of \$1,579,198. Cash used for inventory in the current period was \$2,652,769, compared to cash generated of \$6,981 for the same period in 2005. This increase was the result of our building inventory in connection with the continued implementation of our Master Distribution Agreement with Coca-Cola Enterprises. The changes in accounts payable and accrued liabilities in the current period ending March 31, 2006 contributed to a cash increase of \$1,007,871, whereas the changes in accounts payable and accrued liabilities for the period ended March 31, 2005 amounted to an increase of \$412,704. Cash flow generated through our operating activities was inadequate to cover all of our cash disbursement needs in the period ended March 31, 2006, and we had to rely on prior equity and debt financing to cover expenses.

Cash used in the period ended March 31, 2006 in our investing activities for equipment was \$413,446 for license and trademark costs, furniture, computer equipment, and our purchase of eight vans in the U.S., compared to \$11,625 for the same period in 2005.

Net cash provided by our financing activities for the period ended March 31, 2006 was \$286,606. Net cash provided by financing activities for the same period in 2005 was \$1,123,272, for a net decrease of \$836,666.

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

- o the continued development of our business model in the United States and on an international basis;
- o promotional and logistic production support for the capacity demands presented by our Master Distribution Agreement with Coca-Cola Enterprises
- o general overhead expenses for personnel to support the new business activities;
- o development, launch and marketing costs for our line of new branded flavored milk products, and
- o the payment of guaranteed license royalties.

We estimate that our need for financing to meet cash requirements for operations will continue through the third quarter of 2006, when we expect that cash supplied by operating activities will approach the anticipated cash requirements for operating expenses. We anticipate the need for additional financing in 2006 to reduce our liabilities, assist in marketing and to improve

Edgar Filing: BRAVO FOODS INTERNATIONAL CORP - Form 10QSB

shareholders' equity status. No assurances can be given that we will be able to obtain additional financing, or that operating cash flows will be sufficient to fund our operations.

We currently have monthly working capital needs of approximately \$400,000. We will continue to incur significant selling and other expenses in 2006 in order to derive more revenue in retail markets, through the introduction and ongoing support of our new products and the implementation of the Master Distribution Agreement with Coca-Cola Enterprises. Certain of these expenses, such as slotting fees and freight charges, will be reduced as a function of unit sales costs as we expand our sales markets and increase our sales within established markets. Freight charges will be reduced as we are able to ship more full truckloads of product given the reduced per unit cost associated with full truckloads versus less than full truckloads. Similarly, slotting fees, which are paid to warehouses or chain stores as initial set up or shelf space fees, are essentially one-time charges per new customer. We believe that along with the

19

increase in our unit sales volume, the average unit selling expense and associated costs will decrease, resulting in gross margins sufficient to mitigate cash needs. In addition, we are actively seeking additional financing to support our operational needs and to develop an expanded promotional program for our products.

External Sources of Liquidity

On November 28, 2005, we closed a funding transaction with 13 accredited institutional investors, for the issuance and sale of 40,500,000 shares of our common stock for a purchase price of \$20,250,000. In addition, we also issued five-year warrants for the purchase of an additional 15,187,500 shares of common stock at an exercise price of \$0.80 per share.

We have utilized this financing for, among other things, our working capital needs throughout the current period. We anticipate the need for additional financing in 2006, to support our expanding operations in connection with the continued implementation of our Master Distribution Agreement with Coca-Cola Enterprises.

EFFECTS OF INFLATION

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

ITEM 3. CONTROLS AND PROCEDURES

(a) Evaluation of Disclosure Controls and Procedures

Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, as of the end of the period covered by this report, we conducted an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Act of 1934, as of the end of the period covered by this report. Based on this evaluation, our principal executive officer and principal financial officer concluded that, as of the period covered by this report, our disclosure controls and procedures were effective to provide reasonable assurance that the information required to be included in our Securities and Exchange Commission ("SEC") reports is recorded, processed, summarized and reported within the time

Edgar Filing: BRAVO FOODS INTERNATIONAL CORP - Form 10QSB

periods specified in SEC rules and forms, including our consolidated subsidiary, and was made known to them by others within those entities, particularly during the period when this report was being prepared.

(b) Changes in Internal Controls Over Financial Reporting

In connection with the evaluation required by paragraph (d) of Rule 13a-15 under the Exchange Act, there was no change identified in our internal control over financial reporting that occurred during this fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II - OTHER INFORMATION

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

None

20

Subsequent Events

See Note 6 of Notes to Consolidated Financial Statements

Item 6. Exhibits

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

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

No. 32: Section 1350 Certifications

SIGNATURES

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

BRAVO! FOODS INTERNATIONAL CORP.
(Registrant)
Date: May 15, 2006

/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 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 | May 15, 2006 |
| /S/ Tommy E. Kee | Chief Accounting Officer | May 15, 2006 |

21