

BRAVO FOODS INTERNATIONAL CORP

Form 424B3

November 08, 2006

Filed Pursuant to Rule 424(b)(3)
Registration No. 333-130535

BRAVO! BRANDS INC.
58,004,688 SHARES OF
COMMON STOCK

This prospectus relates to the resale by the selling stockholders up to 58,004,688 shares of our common stock, including the following:

- o 40,500,000 shares of our common stock;
- o up to 15,492,188 shares issuable upon the exercise of common stock purchase warrants at \$0.80.
- o up to 1,012,500 shares issuable upon the exercise of common stock purchase warrants at \$0.50; and
- o up to 1,000,000 shares issuable upon the exercise of common stock purchase warrants at \$0.05

The selling stockholders may sell common stock from time to time in the principal market on which the stock is traded at the prevailing market price or in negotiated transactions. The selling stockholders may be deemed underwriters of the shares of common stock, which they are offering. We will pay the expenses of registering these shares.

Our common stock is registered under Section 12(g) of the Securities Exchange Act of 1934 and is listed on the Over-The-Counter Bulletin Board under the symbol "BRVO". The last reported sales price per share of our common stock as reported by the Over-The-Counter Bulletin Board on October 30, 2006, was \$0.47.

Investing in these securities involves significant risks. See "Risk Factors" beginning on page 4.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this Prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

The date of this prospectus is November 7, 2006.

PROSPECTUS SUMMARY

The following summary highlights selected information contained in this prospectus. This summary does not contain all the information you should consider before investing in the securities. Before making an investment decision, you should read the entire prospectus carefully, including the "risk factors" section, the financial statements and the notes to the financial

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statements.

BRAVO! BRANDS INC.

We are involved in the development and marketing of our Slammers(R) trademarked brand, the obtaining of license rights from third party holders of intellectual property rights to other trademarked brands, logos and characters, and the granting of production and marketing rights to processor dairies to produce branded flavored milk and generating revenue through the sale of "kits" to these dairies outside of the United States and through wholesale sales within the United States. 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, we also generate revenue from the unit sales of finished branded flavored milks to retail consumer outlets.

Our new product introduction and growth expansion continue to be expensive and we reported a net loss of \$79,528,653 for the year ended December 31, 2005 and a net loss of \$11,517,620 for the year ended December 31, 2004. In addition, we had a net loss of \$15,203,188 for the six months ended June 30, 2006. We have suffered operating losses and negative cash flows from operations since inception and, at December 31, 2005, we had an accumulated deficit, a capital deficit, are delinquent on certain debts and have negative working capital. These conditions give rise to substantial doubt about our ability to continue as a going concern.

Our principal offices are located at 11300 US Highway 1, North Palm Beach, Florida 33408, and our telephone number is (561) 625-1411. We are a Delaware corporation.

The Offering

Common stock offered by selling stockholders	Up to 58,004,688 shares, which would represent 29.1% of our outstanding shares of common stock assuming the exercise of warrants being registered herewith including: O 40,500,000 shares of common stock; O up to 15,492,188 shares issuable upon the exercise of common stock purchase warrants at \$0.80; O up to 1,012,500 shares issuable upon the exercise of common stock purchase warrants at \$0.50; and O up to 1,000,000 shares issuable upon the exercise of common stock purchase warrants at \$0.05.
Common stock to be outstanding after the offering	Up to 212,522,689 shares
Use of Proceeds	We will not receive any proceeds from the sale of the common stock
Over-The-Counter Bulletin Board Symbol	BRVO

The above information regarding common stock to be outstanding after the

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offering is based on 200,386,286 shares of common stock outstanding as of October 30, 2006 and assumes the subsequent exercise of warrants by our selling stockholders.

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To obtain funding for our ongoing operations, we entered into the following financing transaction:

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. 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 to these investors. In connection with this financing, we issued a five-year common stock purchase warrant to purchase of 1,012,500 shares of common stock at an exercise price of \$0.50 and 304,688 shares at an exercise price of \$0.80 to SG Cowen & Co., LLC, for its services as a Placement Agent in connection with this funding transaction. The securities are restricted and have been issued pursuant to an exemption to the registration requirements of Section 5 of the Securities Act of 1933 for "transactions of the issuer not involving any public offering" provided in Section 4(2) of the Act and pursuant to a Regulation D offering.

The shares of common stock and the shares of common stock underlying the warrants carry registration rights that obligate us to file a registration statement within 45 days from closing and have the registration statement declared effective within 120 days from closing.

In connection with an intellectual property licenses, we entered into the following:

On June 20, 2005, we issued a one year warrant for the purchase of 1,000,000 shares of common stock at an exercise price of \$0.05 per share to Marvel Enterprises, Inc., pursuant to an April 14, 2005 Services Agreement for marketing, promotional and creative services to be performed by Marvel Enterprises, Inc. in connection with an intellectual property license between our company and Marvel Enterprises, Inc.

This prospectus relates to the resale of the shares of common stock and the shares of common stock issued or to be issued upon exercise of common stock purchase warrants in connection with the November 28, 2005 private placement and the shares of common stock issuable upon exercise of common stock purchase warrants issued in connection with the April 14, 2005 Services Agreement.

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RISK FACTORS

This investment has a high degree of risk. Before you invest you should carefully consider the risks and uncertainties described below and the other information in this prospectus. If any of the following risks actually occur, our business, operating results and financial condition could be harmed and the value of our stock could go down. This means you could lose all or a part of your investment.

Risks Relating to Our Business:

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We Have a History Of Losses Which May Continue, Requiring Us To Seek Additional Sources of Capital Which May Not Be Available, Requiring Us To Curtail Or Cease Operations.

Our new product introduction and growth expansion continue to be expensive, and we reported a net loss of \$79,528,653 for the year ended December 31, 2005 and a net loss of \$11,517,620 for the year ended December 31, 2004. In addition, we had a net loss of \$15,203,188 for the six months ended June 30, 2006. We cannot assure you that we can achieve or sustain profitability on a quarterly or annual basis in the future. If revenues grow more slowly than we anticipate, or if operating expenses exceed our expectations or cannot be adjusted accordingly, we will continue to incur losses. We will continue to incur losses until we are able to establish significant sales. Our possible success is dependent upon the successful development and marketing of our services and products, as to which there is no assurance. Any future success that we might enjoy will depend upon many factors, including factors out of our control or which cannot be predicted at this time. These factors may include changes in or increased levels of competition, including the entry of additional competitors and increased success by existing competitors, changes in general economic conditions, increases in operating costs, including costs of supplies, personnel, marketing and promotions, reduced margins caused by competitive pressures and other factors. These conditions may have a materially adverse effect upon us or may force us to reduce or curtail operations. In addition, we will require additional funds to sustain and expand our sales and marketing activities, particularly if a well-financed competitor emerges. While we closed on \$20,250,000 in new equity financing in November 2005, after the payment of approximately \$1.5 million in fees and expenses, we have allocated approximately \$1.7 million of the net proceeds for the payment of a finders fee in connection with our execution of a Master Distribution Agreement with Coca-Cola Enterprises Inc. and approximately \$5.4 million for the redemption of approximately 30.3 million warrants, and have allocated approximately \$11.7 million for general working expenses. In addition, in August 2006, we completed a \$30.0 million convertible note financing that is expected to fulfill our liquidity requirements through the end of 2006. However, \$15.0 million of this financing is held in escrow, and there can be no assurance that the investors will release these amounts. We have entered into an Amendment Agreement with the holders of the convertible notes to amend the convertible notes in certain respects as consideration for the holders' release of our default resulting from our delay in the filing of the our quarterly report for the period ended June 30, 2006. There can be no assurance that these financings will be adequate for the development and marketing of our services and products at a level that provides sufficient profitability for sustained growth. If the present funds prove sufficient and we are unable to generate adequate funds from operations or external sources, we would be required to curtail or cease operations.

If We Are Unable to Achieve and Sustain Profitability, Our Business Operations Will be Harmed and If We Obtain Additional Financing Our Then Existing Shareholders May Suffer Substantial Dilution.

Additional capital may be required to effectively support the operations and to otherwise implement our overall business strategy. However, there can be no assurance that financing will be available when needed on terms that are acceptable to us. The inability to obtain additional capital will restrict our ability to grow and may reduce our ability to continue to conduct business operations. If we are unable to obtain additional financing, we will likely be required to curtail our marketing and development plans and possibly cease our operations. Any additional equity financing may involve substantial dilution to our then existing shareholders.

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Our Independent Auditors Have Expressed Substantial Doubt About Our Ability to Continue As a Going Concern, Which May Hinder Our Ability to Obtain Future Financing.

In their report dated February 9, 2006, except for Note 13 as to which the date is September 8, 2006, our independent auditors stated that our financial statements for the year ended December 31, 2005 were prepared assuming that we would continue as a going concern. Our ability to continue as a going concern is an issue raised as a result of a net loss for the year ended December 31, 2005 in the amount of \$79,528,653 as well as a significant working capital deficiency as of that date. We continue to experience net operating losses. Our ability to continue as a going concern is subject to our ability to generate a profit and/or obtain necessary funding from outside sources, including obtaining additional funding from the sale of our securities, increasing sales or obtaining loans and grants from various financial institutions where possible. Our continued net operating losses increase the difficulty in meeting such goals, and there can be no assurances that such methods will prove successful.

Since we depend upon key personnel having significant business contacts in the US and internationally, the loss of one or more of our management team may have a negative effect on our business.

The unexpected loss of the services of any member of the management team could have a material adverse effect on our ability to conduct and grow both our US and international business. We are and will be dependent on our current management teams for the foreseeable future

- o to obtain needed additional financing
- o to develop and maintain critical business contacts for the production of our branded milk products
- o to develop and maintain third party licensor and brand development contacts for the formulation of new brand development and branded food products

We face intense competition in our US market that could negatively impact our results of operations

Since we are smaller than our competitors in the US market and since we have limited resources and sell our branded products at premium prices, we have had difficulty in developing and maintaining our market share in the consumer milk market. This difficulty could adversely affect our ability to achieve our business goals to develop and increase the awareness of our branded products in an effort to increase sales, while maintaining a premium price structure.

The ability of our competition to sell dairy and other food products at prices below prices charged by us for our products may represent an obstacle to our ability to secure a market share at revenue levels sufficient to achieve profitability.

In our foreign business, we grant the rights to produce and sell branded milk products to processor dairies under production agreements. Our role in these agreements, in addition to granting the rights to produce the branded milks as part of the sale of flavor ingredient packages to dairies, is limited to marketing and promotion assistance and control over packaging and advertising design issues. Such processors dairies have significant control over sales and distribution of the branded milk products. A reduction in sales effort or discontinuance of sales of our products by our co-producers could lead to reduced sales.

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Risks Relating to Convertible Preferred and Convertible Debenture Financing Arrangement:

There Are a Large Number of Shares Underlying Our Convertible Debentures and Warrants That May be Available for Future Sale and the Sale of These Shares May Depress the Market Price of Our Common Stock.

As of October 30, 2006, we had 200,386,286 shares of common stock issued and outstanding and convertible debentures outstanding that may be converted into an estimated 7,500,000 shares of common stock at below market prices, convertible preferred outstanding that may be converted into an estimated 31,400,000 shares of common stock at below market prices outstanding warrants to purchase an estimated 40,100,000 shares of common stock and options to purchase approximately 8,600,000 shares of common stock. All of the shares, including all of the shares issuable upon conversion of the debentures and upon exercise of our warrants, may be sold pursuant to a currently effective registration statement or pursuant to Rule 144. The sale of these shares may adversely affect the market price of our common stock.

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The Issuance of Shares Upon Conversion of the Convertible Debentures and Exercise of Outstanding Warrants May Cause Immediate and Substantial Dilution to Our Existing Stockholders.

The issuance of shares upon conversion of the convertible debentures and exercise of warrants may result in substantial dilution to the interests of other stockholders since the selling stockholders may ultimately convert and sell the full amount issuable on conversion. Although the debenture holders may not convert their convertible debentures and/or exercise their warrants if such conversion or exercise would cause them to own more than 9.99% of our outstanding common stock, this restriction does not prevent the selling stockholders from converting and/or exercising some of their holdings, selling these shares and then converting the rest of their holdings. In this way, the debenture holders could sell more than this limit while never holding more than this limit.

If We Are Required for any Reason to Repay Our Outstanding Convertible Debentures, We Would Be Required to Deplete Our Working Capital, If Available, Or Raise Additional Funds. Our Failure to Repay the Convertible Debentures, If Required, Could Result in Legal Action Against Us, Which Could Require the Sale of Substantial Assets.

In November 2003, April 2004, June 2004, October 2004, December 2004, January 2005, April 2005, and July 2006, we entered into financing arrangements for the sale of \$35,750,000 principal amount of convertible debentures. Currently, the remaining unpaid principal of the issued notes is \$30,350,000, with approximately \$131,312 in accrued interest.

Any event of default could require the early repayment of the convertible debentures, including a default interest rate if the default is not cured with the specified grace period. We anticipate that the majority of the convertible debentures, together with accrued interest, will be converted into shares of our common stock, in accordance with the terms of the convertible debentures. If we are required to repay the convertible debentures, we would be required to use our working capital or raise additional funds. If we were unable to repay the debentures when required, the debenture holders could commence legal action against us to recover the amounts due. Any such action may require us to obtain

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additional financing or curtail operations.

Risks Relating to Our Common Stock:

If We Fail to Remain Current on Our Reporting Requirements, We Could be Removed From the OTC Bulletin Board Which Would Limit the Ability of Broker-Dealers to Sell Our Securities and the Ability of Stockholders to Sell Their Securities in the Secondary Market.

Companies trading on the OTC Bulletin Board, such as us, must be reporting issuers under Section 12 of the Securities Exchange Act of 1934, as amended, and must be current in their reports under Section 13, in order to maintain price quotation privileges on the OTC Bulletin Board. If we fail to remain current on our reporting requirements, we could be removed from the OTC Bulletin Board. As a result, the market liquidity for our securities could be severely adversely affected by limiting the ability of broker-dealers to sell our securities and the ability of stockholders to sell their securities in the secondary market.

Our Common Stock is Subject to the "Penny Stock" Rules of the SEC and the Trading Market in Our Securities is Limited, Which Makes Transactions in Our Stock Cumbersome and May Reduce the Value of an Investment in Our Stock.

The Securities and Exchange Commission has adopted Rule 15g-9 which establishes the definition of a "penny stock," for the purposes relevant to us, as any equity security that has a market price of less than \$5.00 per share or with an exercise price of less than \$5.00 per share, subject to certain exceptions. For any transaction involving a penny stock, unless exempt, the rules require:

- o that a broker or dealer approve a person's account for transactions in penny stocks; and
- o the broker or dealer receive from the investor a written agreement to the transaction, setting forth the identity and quantity of the penny stock to be purchased.

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In order to approve a person's account for transactions in penny stocks, the broker or dealer must:

- o obtain financial information and investment experience objectives of the person; and
- o make a reasonable determination that the transactions in penny stocks are suitable for that person and the person has sufficient knowledge and experience in financial matters to be capable of evaluating the risks of transactions in penny stocks.

The broker or dealer must also deliver, prior to any transaction in a penny stock, a disclosure schedule prescribed by the Commission relating to the penny stock market, which, in highlight form:

- o sets forth the basis on which the broker or dealer made the suitability determination; and
- o that the broker or dealer received a signed, written agreement from the investor prior to the transaction.

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Generally, brokers may be less willing to execute transactions in securities subject to the "penny stock" rules. This may make it more difficult for investors to dispose of our common stock and cause a decline in the market value of our stock.

Disclosure also has to be made about the risks of investing in penny stocks in both public offerings and in secondary trading and about the commissions payable to both the broker-dealer and the registered representative, current quotations for the securities and the rights and remedies available to an investor in cases of fraud in penny stock transactions. Finally, monthly statements have to be sent disclosing recent price information for the penny stock held in the account and information on the limited market in penny stocks.

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USE OF PROCEEDS

This prospectus relates to shares of our common stock that may be offered and sold from time to time by the selling stockholders. We will not receive any proceeds from the sale of shares of common stock in this offering. In the event that we receive proceeds from the exercise of the Class A, Class B Warrants and other warrants, we will use these funds for working capital.

MARKET FOR COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

Our common stock is quoted on the OTC Bulletin Board under the symbol "BRVO".

For the periods indicated, the following table sets forth the high and low bid prices per share of common stock. These prices represent inter-dealer quotations without retail markup, markdown, or commission and may not necessarily represent actual transactions.

	High	Low
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2004		
First Quarter	.17	.06
Second Quarter	.34	.14
Third Quarter	.27	.13
Fourth Quarter	.22	.09
2005		
First Quarter	.18	.10
Second Quarter	1.21	.14
Third Quarter	1.43	.51
Fourth Quarter	.80	.47
2006		
First Quarter	.74	.54
Second Quarter	.81	.50

HOLDERS

Equity holders at October 30, 2006

Common stock	200,386,286 shares	7,200 holders (approximate)
Series B preferred stock	107,440 shares	1 holder
Series H preferred stock	64,500 shares	1 holder

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Series J preferred stock	200,000 shares	1 holder
Series K preferred stock	95,000 shares	1 holder

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Dividends

We have not paid dividends on our common stock and do not anticipate paying dividends. Management intends to retain future earnings, if any, to finance working capital, to expand our operations and to pursue our acquisition strategy.

The holders of common stock are entitled to receive, pro rata, such dividends and other distributions as and when declared by our board of directors out of the assets and funds legally available therefor. The availability of funds is dependent upon dividends or distribution of profits from our subsidiaries and may be subject to regulatory control and approval by the appropriate government authorities on either a regional or national level.

We have dividends in arrearage for our convertible preferred stock in the amount of \$1,240,682 and \$928,379 as of the years ended December 31, 2005 and 2004, respectively.

Securities authorized for issuance under equity compensation plans

The equity compensation reported in this section has been and will be issued pursuant to individual compensation contracts and arrangements with employees, directors, consultants, advisors, vendors, suppliers, lenders and service providers. The equity is reported on an aggregate basis as of December 31, 2005. Our security holders have not approved the compensation contracts and arrangements underlying the equity reported.

Compensation Plan Category	Number of securities to be issued upon exercise of options, warrants and rights	Weighted average price of outstanding options, warrants and rights	Number of securities rema for future issuance un equity compensation pl
Directors (former)	325,000	\$ 0.71	0
Employees (former)	650,000	\$ 0.87	60,000
Directors/Management & Employees	8,872,745	\$0.245	1,475,000
Consultants	510,714	\$ 0.30	0
Total	10,358,459	\$ 0.77	1,535,000

On April 6, 2005, our Directors voted to adopt a Stock Option Incentive Plan for the grant of option to directors, employees and consultants for the purchase of up to 10,397,745 shares of our common stock. On May 12, 2005, the Board of Directors accepted and adopted the determination of the Compensation Committee to grant options to purchase 8,922,745 shares of common stock to our employees, directors and certain consultants. The ten-year options vest over a period of eighteen months and have exercise prices varying from \$0.20 per share to \$0.30 per share, with a weighted average exercise price of \$0.24 per share.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION
AND RESULTS OF OPERATIONS

Some of the information in this Form SB-2 contains forward-looking statements that involve substantial risks and uncertainties. You can identify these statements by forward-looking words such as "may," "will," "expect," "anticipate," "believe," "estimate" and "continue," or similar words. You should read statements that contain these words carefully because they:

- o discuss our future expectations;
- o contain projections of our future results of operations or of our financial condition; and
- o state other "forward-looking" information.

We believe it is important to communicate our expectations. However, there may be events in the future that we are not able to accurately predict or over which we have no control. Our actual results and the timing of certain events could differ materially from those anticipated in these forward-looking statements as a result of certain factors, including those set forth under "Risk Factors," "Business" and elsewhere in this prospectus. See "Risk Factors."

OVERVIEW

Our business model includes the development and marketing of our Company owned Slammers(R) and Bravo!(TM) 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 business in the United Kingdom started at the end of the second quarter of 2005. Our UK business has not been profitable owing to the difficulties encountered in initial market penetration with new products introduced in the last half of 2005 through the first half of 2006. In the current period we had a negative gross margin for our UK operations. We are examining other distribution alternatives in the UK and, while we are making this determination, we have curtailed our production of inventory necessary to maintain a normal supply pipeline.

Our new product introduction and growth expansion continues to be expensive, and we reported a loss from operations of \$9,563,041 for the period ended June 30, 2006. We had a net loss during this period of \$15,203,188, largely as a result of a penalty interest expense of \$4.6 million associated with our failure to have declared effective a registration statement for the common stock underlying our November 2005 financing in a timely manner. That registration statement currently is pending, and we are working to restate and file the necessary financial statements required to have that registration statement declared effective.

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RESTATEMENT DISCLOSURE

We have restated our annual report on Form 10-KSB for the year ended December 31, 2005 and our quarterly reports on Form 10-QSB for the quarterly periods ended March 31, 2006 and June 30, 2006. We have also restated the quarterly and year-to-date results for June 30, 2005 in the accompanying financial presentations for comparative purposes.

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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 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

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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

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.

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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 for interim reports that are generally accepted in the United States of America. The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities 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. Among the more significant estimates included in our financial statements are the following:

- o Estimating future bad debts on accounts receivable that are carried at net realizable values.
- o Estimating our reserve for unsalable and obsolete inventories that are carried at lower of cost or market.
- o Estimating the fair value of our financial instruments that are required to be carried at fair value.
- o Estimating the recoverability of our long-lived assets.

We use all available information and appropriate techniques to develop our estimates. However, actual results could differ from our estimates.

Revenue Recognition and Accounts Receivable

Our revenues are derived from the sale of branded milk products to customers in the United States of America, Great Britain and the Middle East. Geographically, our revenues are dispersed 98% and 2% between the United States of America and internationally, respectively. We currently have one customer in the United States that provided 74% and 0% of our revenue during the six months ended June 30, 2006 and 2005, respectively.

Revenues are recognized pursuant to formal revenue arrangements with our customers, at contracted prices, when our product is delivered to their premises and collectibility is reasonably assured. We extend merchantability warranties to our customers on our products but otherwise do not afford our customers with rights of return. Warranty costs have historically been insignificant.

Our revenue arrangements often provide for industry-standard slotting fees

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where we make cash payments to the respective customer to obtain rights to place our products on their retail shelves for stipulated period of time. We also engage in other promotional discount programs in order to enhance our sales activities. 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 are recorded as reductions to our reported revenue. Unamortized slotting fees are recorded in prepaid expenses.

Our accounts receivable are exposed to credit risk. During the normal course of business, we extend unsecured credit to our customers with normal and traditional trade terms. Typically credit terms require payments to be made by the thirtieth day following the sale. We regularly evaluate and monitor the creditworthiness of each customer. We provide an allowance for doubtful accounts based on our continuing evaluation of our customers' credit risk and our overall collection history. As of June 30, 2006 and December 31, 2005, the allowance of doubtful accounts aggregated \$365,000 and \$350,000, respectively.

In addition, our accounts receivable are concentrated with one customer who represents 39% of our accounts receivable balances at June 30, 2006. Approximately, 6% of our accounts receivable at June 30, 2006 are due from international customers.

Inventories

Our inventories, which consists primarily of finished goods, are stated at the lower of cost on the first in, first-out method or market. Further, our inventories are perishable. Accordingly, we estimate and record lower-of-cost or market and unsalable-inventory reserves based upon a combination of our historical experience and on a specific identification basis.

Impairment of Long-Lived Assets

Our long-lived assets consist of furniture and equipment and intangible assets. We evaluate the carrying value and recoverability of our long-lived assets when circumstances warrant such evaluation by applying the provisions of Financial Accounting Standard No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets ("FAS 144"). FAS 144 requires that long-lived assets be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable through the estimated undiscounted cash flows expected to result from the use and eventual disposition of the assets. Whenever any such impairment exists, an impairment loss will be recognized for the amount by which the carrying value exceeds the fair value.

Financial Instruments

We generally do not use derivative financial instruments to hedge exposures to cash-flow, market or foreign-currency risks. However, we frequently enter into certain other financial instruments and contracts, such as debt financing arrangements, redeemable preferred stock arrangements, and freestanding warrants with features that are either (i) not afforded equity classification, (ii) embody risks not clearly and closely related to host contracts, or (iii) may be net-cash settled by the counterparty. As required by FAS 133, these instruments are required to be carried as derivative liabilities, at fair value, in our financial statements.

We estimate fair values of derivative financial instruments using various

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techniques (and combinations thereof) that are considered to be consistent with the objective measuring fair values. In selecting the appropriate technique, we consider, among other factors, the nature of the instrument, the market risks that it embodies and the expected means of settlement. For less complex derivative instruments, such as freestanding warrants, we generally use the Black Scholes option valuation technique because it embodies all of the requisite assumptions (including trading volatility, estimated terms and risk free rates) necessary to fair value these instruments. For complex derivative instruments, such as embedded conversion options, we generally use the Flexible Monte Carlo valuation technique because it embodies all of the requisite assumptions (including credit risk, interest-rate risk and exercise/conversion behaviors) that are necessary to fair value these more complex instruments. For forward contracts that contingently require net-cash settlement as the principal means of settlement, we project and discount future cash flows applying probability-weightage to multiple possible outcomes. Estimating fair values of derivative financial instruments requires the development of significant and subjective estimates that may, and are likely to, change over the duration of the instrument with related changes in internal and external market factors. In addition, option-based techniques are highly volatile and sensitive to changes in our trading market price which has a high-historical volatility. Since derivative financial instruments are initially and subsequently carried at fair values, our income will reflect the volatility in these estimate and assumption changes.

RESULTS OF OPERATIONS

Six Months Ended June 30, 2006 Compared to Six Months Ended June 30, 2005

Consolidated Revenues

We had revenue for the six months ended June 30, 2006 of \$7,266,441, with product costs of \$6,200,097, and shipping costs of \$744,636, resulting in a gross margin of \$321,708. Our reported revenues for the six months ended June 30, 2006 increased by \$3,920,053, or 117%, compared to revenues of \$3,346,388 for the comparable 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 Coca-Cola Enterprises in the first half of 2006. Revenues and gross margin are net of slotting fees and promotional discounts for the six months ended June 30, 2006 in the amount of \$294,332 compared to \$187,295 for the comparable period in the prior year.

Geographically, our revenues are dispersed 98% and 2% between the United States of America and internationally, respectively. We plan to take measures to increase our international revenues as a percentage of our total revenues. In addition, we currently have one customer in the United States that provided 74% and 0% of our revenue during the six months ended June 30, 2006 and 2005, respectively. The loss of this customer or curtailment in business with this customer could have a material adverse affect on our business.

Consolidated Product Costs

We incurred product costs and shipping costs of \$6,200,097 and \$744,636, respectively, for the six months ended June 30, 2006. Product costs in this period increased by \$3,841,970, a 163% increase compared to \$2,358,127 for the same period in 2005. Shipping costs in this period increased \$313,800, a 73% increase compared to \$430,836 for the same period in 2005. The increase in product costs reflects an increase in revenues and the concomitant increase in

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reported product costs and shipping costs associated with that increase.

Consolidated Operating Expenses

We incurred selling expenses of \$6,210,909 for the six months ended June 30, 2006. Our selling expenses for this period increased by \$4,690,329, a 308% increase compared to our selling expenses of \$1,520,580 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 revenues and our development of four new product lines.

We incurred general and administrative expense for the six months ended June 30, 2006 of \$3,396,521. Our general and administrative expense for this period increased by \$801,443, a 31% increase compared to \$2,595,078 for the same period in 2005. As a percentage of total revenue, our general and administrative expense decreased from 77.5% in the period ended June 30, 2005, to 47% for the current period in 2006. We anticipate a continued effort to reduce this expense as a percentage of revenues through revenue growth, cost cutting efforts and the refinement of business operations. The increase in general and administrative expense for the current period is the result of the hiring of additional staff and other costs associated with the management and implementation of our relationship with Coca-Cola Enterprises under the Master Distribution Agreement.

We incurred product development expense for the six months ended June 30, 2006 of \$277,319 representing a 28.5% increase over product development expense for the comparable period of the prior year. This increase resulted from the reformulation of existing products and the development of new products under our license agreement with General Mills.

Interest Expense

We incurred interest expense for the six months ended June 30, 2006 of \$431,261. Our interest expense decreased by \$1,060,629, a 71% decrease compared to \$1,491,890 for the same period in 2005. The decrease was due to conversions of debt to common stock in late 2005 that eliminated the accrual of interest associated with that debt.

Legal Settlement

In June 2005, we issued Marvel Enterprises a warrant to purchase 1,000,000 shares of our common stock in connection with the grant of a trademark license by Marvel to the Company. The warrant contained an expiration date of June 16, 2006. In connection with the issuance of the warrant, we executed a registration rights agreement with Marvel that required us to use our reasonable best efforts to cause the effectiveness of a registration statement, under the Securities Act of 1933, for the resale by Marvel of the shares purchasable under the warrant. In December 2005, the Company filed a registration statement under Form SB-2 that included the common stock underlying the Marvel warrant. As of March 31, 2006, however, the Registration Statement had not been declared effective. In the second quarter of 2006, Marvel filed a complaint against the Company, alleging that Marvel had been damaged by our failure to cause a registration statement to become effective. On June 7, 2006, we settled the lawsuit, without the necessity of filing an answer to the complaint, by delivering to Marvel an amendment to the Warrant extending its term through June 16, 2007, and Marvel dismissed its complaint.

Gain (loss) on Debt Extinguishment

We reported a gain on debt extinguishments for the six months ended June 30, 2005 of \$7,164, resulting from the modification of the terms of certain notes.

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Derivative Expense

Derivative expense arises from changes in the fair value of our derivative financial instruments and, in rare instances, day-one losses when the fair value of embedded and freestanding derivative financial instruments issued or included in financing transactions exceed the proceeds or other basis. Derivative financial instruments include freestanding warrants, compound embedded derivative features that have been bifurcated from debt and preferred stock financings. In addition, our derivative financial instruments arise from the reclassification of other non-financing derivative and other contracts from stockholders' equity because share settlement is not within our control while certain variable share price indexed financing instruments are outstanding.

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Our derivative expense amounted to \$98,011 for the six months ended June 30, 2006, compared to \$75,839,650 for the corresponding period of the prior year.

Changes in the fair value of compound derivatives indexed to our common stock are significantly affected by changes in our trading stock price and the credit risk associated with our financial instruments. The fair value of warrant derivatives is significantly affected by changes in our trading stock prices. The fair value of derivative financial instruments that are settled solely with cash fluctuate with changes in management's weighted probability estimates following the financing inception and are generally attributable to the increasing probability of default events on debt and preferred stock financings. The fair value of the warrants declined principally due to the decline in our common stock trading price. Since these instruments are measured at fair value, future changes in assumptions, arising from both internal factors and general market conditions, may cause further variation in the fair value of these instruments. Future changes in these underlying internal and external market conditions will have a continuing effect on derivative expense associated with our derivative financial instruments.

In addition, we entered into a \$30 million debt and warrant financing in July 2006 that will require the bifurcation of derivative financial instruments. We have not calculated the amounts of these derivatives, but their effects on our earnings, arising from fair value changes, will be consistent with the derivatives that we carry as of June 30, 2006.

Liquidated Damages

During the three and six months ended June 30, 2006, we recorded liquidated damages expense of \$3,872,388 and \$4,558,275; none in the comparable periods of 2005. However, we recorded \$303,750 of liquidated damages during the fourth fiscal quarter of our year ended December 31, 2005. We have entered into registration rights agreements with certain investors that require us to file a registration statement covering underlying indexed shares, become effective on the registration statement, maintain effectiveness, and, in some instances, maintain the listing of the underlying shares. Certain of these registration rights agreements require our payment of cash penalties to the investors in the event we do not achieve the requirements. We record estimated liquidated damages penalties as liabilities and charges to our income when the cash penalties are probable and estimable. We will evaluate our estimate of liquidated damages in future periods and adjust our estimates for changes, if any, in the facts and circumstances underlying their classification.

Net Loss

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We had a net loss for the six months ended June 30, 2006 of \$15,203,188 compared with a net loss of \$81,098,366 for the same period in 2005. The magnitude of both the 2006 and 2005 net loss is the result of our recording changes in derivative expense on the consolidated statement of operations.

Loss Applicable to Common Shareholders

Loss applicable to common shareholders represents net loss less preferred stock dividends and accretion of our redeemable preferred stock to redemption value using the effective method. Diluted loss per common share reflects the assumed conversion of all dilutive securities, such as convertible preferred stock, convertible debt, warrants, and employee stock options.

Loss per Common Share

Our basic loss per common share for the six months ended June 30, 2006 was \$(0.08), compared with a basic loss per common share for the same period in 2005 of \$(1.24). Because the Company experienced net losses for all periods presented, all potential common share conversions existing in our financial instruments would have an antidilutive impact on earnings per share; therefore, diluted loss per common share equals basic loss per common share for all periods presented.

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The weighted average common shares outstanding increased from 66,035,224 for the six months ended June 30, 2005 to 186,843,409 for the same period in 2006. The increase is attributed primarily to conversions of our convertible debt and preferred instruments into common shares. Potential common stock conversions excluded from the computation of diluted earnings per share amounted to 61,178,096 and 104,564,021 for the six month periods ending June 30, 2006 and June 30, 2005, respectively.

Comprehensive Income (Loss)

Comprehensive income (loss) differs from net income (loss) for the six months ended June 30, 2006 and 2005 by \$21,439 and (\$5,327), respectively, which represents the effects of foreign currency translation on the financial statements of our subsidiaries denominated in foreign currencies. Our foreign operations are currently not significant. Increases in our foreign operations will likely increase the effects of foreign currency translation adjustments on our financial statements.

Three Months Ended June 30, 2006 Compared to the Three Months Ended June 30, 2005

Consolidated Revenues

The Company had revenues for the three months ended June 30, 2006 of \$3,705,226, with product costs of \$3,253,637 and shipping costs of \$351,185, resulting in a gross margin of \$100,404, or 2.7 % of sales. Our revenues for the three months ended June 30, 2006 increased by \$1,256,608, a 51% increase compared to revenues of \$2,448,618 for the three months ended June 30, 2005. The increase in revenue in the United States for the three months ended June 30, 2006 is the result of the increased distribution of our product through Coca-Cola Enterprises.

Consolidated Product Costs

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The Company incurred product costs of \$3,253,637 and shipping costs of \$351,185 for the three months ended June 30, 2006. Product costs for this period increased by \$1,573,173, a 93.6% increase compared to \$1,680,464 for the three months ended June 30, 2005. The increase in product costs and shipping costs in the United States for the three months ended June 30, 2006 is the result of increased revenues.

Consolidated Operating Expenses

The Company incurred selling expenses for the three months ended June 30, 2006 of \$3,367,811. Selling expenses increased for the three months ended June 30, 2006 by \$2,332,262, a 225% increase compared to the selling expenses of \$1,035,549 for the three months ended June 30, 2005. The increase in selling expenses is the result of increased sales.

The Company incurred general and administrative expenses for the three months ended June 30, 2006 of \$1,628,317. General and administrative expenses for the three months ended June 30, 2006 decreased by \$208,507, an 11.3% decrease compared to \$1,836,824 for the same period in 2005. The decrease in general and administrative expenses for the current period is the result of the recognition of warrant costs recognized in 2005 for warrants granted to an investor relations firm.

Interest Expense

The Company incurred interest expense for the three months ended June 30, 2006 of \$397,254. Interest expense for the three months ended June 30, 2006 decreased by \$200,475, a 33.5% decrease compared to \$597,729, for the same period in 2005. This decrease was the result of conversions of debt to common stock in late 2005 that eliminated the accrual of interest associated with that debt.

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Liquidated Damages

During the three months ended June 30, 2006, we recorded liquidated damages expense of \$3,872,388; none in the comparable period of 2005. However, we recorded \$303,750 of liquidated damages during the fourth fiscal quarter of our year ended December 31, 2005. We have entered into registration rights agreements with certain investors that require us to file a registration statement covering underlying indexed shares, become effective on the registration statement, maintain effectiveness, and, in some instances, maintain the listing of the underlying shares. Certain of these registration rights agreements require our payment of cash penalties to the investors in the event we do not achieve the requirements. We record estimated liquidated damages penalties as liabilities and charges to our income when the cash penalties are probable and estimable. We will evaluate our estimate of liquidated damages in future periods and adjust our estimates for changes, if any, in the facts and circumstances underlying their classification.

Net Loss

We had had a net loss for the three months ended June 30, 2005 of \$14,926,521, compared with a net loss of \$80,445,296 for the same period in 2005. The magnitude of the 2006 and 2005 loss is the result of our recording changes in the fair value in our derivatives.

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Year Ended December 31, 2005 Compared to Year Ended December 31, 2004

Consolidated Revenues

We reported revenues for the year ended December 31, 2005 of \$11,948,921, an increase of \$8,604,222, or 257%, compared to revenues of \$3,344,699 in 2004. This increase is the result of the acquisition of a significant new customer ("Coca Cola Enterprises" or "CCE") during the third fiscal quarter with sales generation commencing in the fourth fiscal quarter. Our revenues to CCE for the year ended December 31, 2005 comprise 34% of our total revenue. CCE will continue to be a significant customer in the foreseeable future. Since we commenced revenue generation with CCE in the fourth fiscal quarter, in future periods we expect that our revenues from sales to CCE will increase as a percentage of our total revenues.

Our revenues and gross margin are net of industry-standard slotting fees and promotional discounts for the year ended December 31, 2005 in the amount of \$487,221 compared to \$204,755 in 2004. We record these programs as reductions in our revenues and we may enter into similar programs in future periods to increase our market penetration.

Geographically, during the 2005 fiscal year, our revenues are dispersed 98% and 2% between the United States of America and internationally, respectively. While our current international revenues have not been significant, we are taking measures to further penetrate international markets and increase our international revenues as a percentage of our total revenues.

Consolidated Product and Shipping Costs

We incurred product costs and shipping costs of \$8,938,692 and \$1,505,035, respectively, for the year ended December 31, 2005. Product costs in 2005 increased by \$6,563,887, a 276% increase compared to \$2,374,805 in 2004. Shipping costs in 2005 increased \$1,006,722, or 202%, compared to \$498,313 in 2004. The increase in product costs reflects an increase in revenues and the concomitant increase in reported product and shipping costs associated with that increase. Our overall gross margin for 2005 of 12.6% decreased slightly from our 14.0% gross margin in 2004 due to slightly higher production costs that were not offset with reciprocal pricing increases due to competitive constraint.

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Consolidated Operating Expenses

Selling Expense:

We incurred selling expense of \$7,464,876 during the year ended December 31, 2005. We expense these costs, consisting largely of advertising and promotion, as they are incurred. Our selling expense for this period increased by \$6,164,203, a 474% increase compared to our selling expenses of \$1,300,673 for the same period in 2004. The increase in selling expense in the current period was due to higher advertising expenses as we penetrate new markets and, to a lesser degree, the hiring of additional sales staff. In addition, in connection with the acquisition of our new customer, CCE during 2005, we entered into a commitment to spend an aggregate of \$5,000,000 for advertising and promotion of our products during the years ended 2005 and 2006. Thereafter, we have agreed to spend an aggregate annual amount of 3% of our total CCE revenue for advertising programs. Generally, since our revenue producing activities with CCE did not commence until November of 2005, we did not incur a significant amount of expense under this commitment. Accordingly, our selling expenses can be expected

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to increase during 2006 and 2007 as we fulfill our obligations under these important arrangements and we continue to address additional markets.

Product Development Expense:

We incurred product development expense for the years ended December 31, 2005 of \$636,342, representing a 209% increase over product development expense in 2004. Additional expenditures were incurred in 2005 due to the launching of our Slammers Starburst line of Fruit & Cream Smoothies, and to package redesign costs associated with several of our product lines including Slim Slammers, Pro Slammers and Breakfast Blenders.

General and Administrative Expense:

Our general and administrative expense for the year ended December 31, 2005 was \$7,263,284, an increase of \$4,586,223 compared to \$2,677,061 in 2004. The increase is the result of additional payroll, increased occupancy costs, office overhead costs and travel necessary to support the increase in revenues. As a percentage of total revenue, our general and administrative expense decreased from 80% in 2004, to 61% for 2005. We anticipate a continued effort to reduce these expenses as a percentage of sales through revenue growth, certain cost cutting efforts and the refinement of business operations. Non-Recurring Finders' Fee:

We recorded a \$3,000,000 one time, non-recurring finder's fee in connection with our execution of the Master Distribution Agreement with CCE in 2005. We do not currently anticipate incurring similar costs during 2006 or in the foreseeable future since our business opportunity with CCE is expected to be further developed over that period.

Consolidated Other Income (Expense)

Derivative Expense

Our derivative expense amounted to \$60,823,574 for the year ended December 31 2005, compared to \$6,309,933 in 2004. Derivative expense (and in some instances income) arises from changes in the fair value of our derivative financial instruments and, in rare instances, day-one losses when the fair value of embedded and freestanding derivative financial instruments issued or included in financing transactions exceed the proceeds or other basis. Derivative financial instruments include freestanding warrants, compound embedded derivative features that have been bifurcated from debt and preferred stock financings. In addition, our derivative financial instruments arise from the reclassification of other non-financing derivative and other contracts from stockholders' equity because share settlement is not within our control while certain variable share price indexed financing instruments are outstanding.

Our derivative loss during each of the years ended December 31, 2005 and 2004 is significant to our consolidated financial statements. The magnitude of the derivative loss during the year ended December 31, 2005 when compared with the loss for the year ended December 31, 2004 reflects the following:

(a) During the year ended December 31, 2005, and specifically commencing in the second quarter, the trading price of our common stock reached significantly high levels relative to its trend. The trading price of our common stock significantly affects the fair value of our derivative financial instruments. To illustrate, our trading stock price at the end of the first quarter of 2005 was \$0.15 and then increased to \$0.93 by the end of the second quarter. Our trading stock price then declined to \$0.61 and \$0.59 at the end of the third and fourth quarters, respectively. However, the higher stock price had the effect of significantly increasing the fair value of our derivative liabilities and, accordingly, we were required to adjust the derivatives to these higher values

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with charges to our income. Also, due to the higher stock price commencing in the second quarter, we experienced significant exercise and conversion activity related to our derivative warrants and, to a lesser degree, with respect to the embedded conversion options. Accordingly, our year end derivative liability balances reflect, among other elements of our valuation assumptions, the higher intrinsic values of the arrangements caused by the significant changes in our stock price, which are offset by a smaller number of common shares indexed to outstanding warrants due to the extraordinary level of exercise activity.

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(b) During the year ended December 31, 2005, we entered into a \$2,300,000 debt and warrant financing arrangement, more fully discussed in Note 6(b). In connection with our accounting for this financing we encountered the unusual circumstance of a day-one loss related to the recognition of derivative instruments arising from the arrangement. That means that the fair value of the bifurcated compound derivative and warrants exceeded the proceeds that we received from the arrangement and we were required to record a loss to record the derivative financial instruments at fair value. The loss that we recorded amounted to \$8,663,869. We did not enter into any other financing arrangements during the periods reported that reflected day-one losses.

Because our derivative financial instruments are carried at, and periodically adjusted to, fair value, our income is likely to experience continuing volatility as assumptions underlying our fair value techniques (including internal factors and external market indicators) change. However, we are currently evaluating contracts underlying the origination of these derivative financial instruments to determine whether they may be modified with the investor. There can be no assurance that we can reach an agreement to modify these arrangements and, if we are able to execute such modifications, we would be required to consider whether such modification(s) is significant. In instances where modifications are considered significant, we may be required to extinguish the original financial instrument and reestablish it at fair value. These extinguishments, if any, would likely be accompanied with extinguishment gains or losses that we would be required to reflect in our income.

Finally, we entered into a \$30.0 million debt and warrant financing in July 2006 (see "Material Events" below) that will likely require the bifurcation of additional derivative financial instruments. We have not yet calculated the amounts of these derivatives, but their effects on our income, arising from fair value changes, will be afforded the same accounting treatment as those that we currently carry.

Liquidated Damages

During the year ended December 31, 2005, we recorded liquidated damages expense of \$303,750 (none in 2004). We have entered into registration rights agreements with certain investors that require us to file a registration statement covering underlying indexed shares, become effective on the registration statement, maintain effectiveness and, in some instances, maintain the listing of the underlying shares. Certain of these registration rights agreements require our payment of cash penalties to the investors in the event we do not achieve the requirements. We record estimated liquidated damages as liabilities and charges to our income when the cash penalties are probable and estimable. We will evaluate our estimate of liquidated damages in future periods and adjust our estimates for changes, if any, in the facts and circumstances underlying their calculation, pursuant to Financial Accounting Standard No. 5, Accounting for Contingencies.

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Interest Expense

We incurred interest expense for the year ended December 31, 2005 of \$1,667,294. Our interest expense increased by \$231,889, a 16% increase compared to \$1,435,405 in 2004. The increase was due to the effects of application of the effective interest method where an effective interest amount, as calculated at the inception of the debt is applied to the carrying value at the end of each period. Under this method, periodic interest charges increases over the debt term as the debt carrying value increases.

Other expense

Other expense consists of debt extinguishment losses and (gains). These amounts arose from certain modifications that we made to our debt arrangements that required our re-measurement of the carrying value to fair value because the modification was significant. We may modify other debt arrangements as discussed under the discussion related to our derivative financial instruments. Each modification will require a determination whether an extinguishment occurred and, if so, an extinguishment gain or loss may require recognition.

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Subsequent to our year ended December 31, 2005, we began to incur penalties related to a financing arrangement that required us to, among other things, become effective on a registration statement. We have not become effective on the registration statement. As of June 30, 2006, we incurred in excess of \$2.1 million of penalties under this arrangement, and we paid these amounts beginning in the third fiscal quarter of our year ending December 31, 2006. Our other expense in future periods will reflect charges related to these penalties, and such penalties will continue until the events that give rise to the penalties are cured. In the event that we cure the default events that give rise to the penalties, certain default provisions will continue, such as maintaining effectiveness, that could give rise to additional penalties.

Consolidated Net Loss

We had a net loss for the year ended December 31 2005 of \$79,528,653 compared with a net loss of \$11,517,620 in 2004. There were a number of factors that gave rise to our losses in 2005 and 2004. First, we are currently expending funds in developing our administrative and operating infrastructure and our sales channels and, as a result, our current revenue volume has not been sufficient to offset our operating expenses resulting in an operating loss during the years ended December 31, 2005 and 2004. We anticipate that our operating expenses as a percentage of our sales will decrease in future periods as our revenues increase and our costs level. In addition, we incurred a one-time \$3,000,000 fee during the year ended December 31, 2005 related to the acquisition of our customer, CCE. We do not currently anticipate incurring similar costs in the foreseeable future. Finally, the overall magnitude of both the 2005 and 2004 net loss can be attributable largely to the fair value adjustments related to our derivative financial instruments of \$60,823,574 and \$6,309,933 in 2005 and 2004, respectively. See the discussion above, about our derivative income (expense) for additional information. Our earnings will continue to be affected by the fair value adjustments of our derivative financial instruments until they are disposed of through contractual modifications, conversions and exercises of our share indexed instruments, or expiration.

Consolidated Loss Applicable to Common Shareholders

Loss applicable to common shareholders represents net loss as adjusted for preferred stock dividends and accretion of our redeemable preferred stock and

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our equity classified preferred stock to redemption values using the effective method. Many of our preferred stock series have cumulative dividend features and we will continue to reflect preferred stock dividends in our loss applicable to common shareholders until the preferred stock is converted, if ever. In addition, many of our redeemable preferred stock series were initially discounted due to the allocation of financing proceeds to detachable warrants and embedded derivative financial instruments. We use the effective method to amortize these discounts. The use of the effective method to accrete our discounted redeemable preferred stock to redemption values causes accretion to increase over the redemption period as the carrying values increase. Accordingly, accretions will increase in future periods until the preferred is fully accreted to redemption values or converted.

Consolidated Loss per Common Share

The Company's basic loss per common share for the year ended December 31, 2005 was \$(0.60) compared with a basic loss per common share for the same period in 2004 of \$(0.31). Because the Company experienced net losses in 2005 and 2004, all potential common share conversions existing in our financial instruments would have an antidilutive impact on earnings per share; therefore, diluted loss per common share equals basic loss per common share for both years.

The weighted average common shares outstanding increased from 40,229,738 for the year ended December 31, 2004 to 135,032,836 for the year ended December 31, 2005. The increase is attributed primarily to conversions of our convertible debt and preferred instruments into common shares. Potential common stock conversions excluded from the computation of diluted earnings per share amounted to 108,059,082 and 126,767,057 for the years ending December 31 2005 and 2004, respectively.

Consolidated Comprehensive Loss

Comprehensive loss differs from net loss for the year ended December 2005 and 2004 by (\$30,759) and (\$689), respectively, which represents the effects of foreign currency translation on the financial statements of our subsidiaries denominated in foreign currencies. Our foreign operations are currently not significant. Increases in our foreign operations will likely increase the effects of foreign currency translation adjustments on our financial statements.

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LIQUIDITY AND CAPITAL RESOURCES

Management's Plans:

As reflected in the accompanying consolidated financial statements, we have incurred operating losses and negative cash flow from operations and have negative working capital of \$51,012,013 as of June 30, 2006. This negative figure is largely the effect of our recording of \$36,425,561 for derivative liabilities. In addition, we are delinquent on certain of our debt agreements at June 30, 2006, and, we have experienced delays in filing our financial statements and registration statements due to errors in our historical accounting that currently are being corrected. Our inability to make these filings is resulting in our recognition of penalties payable to the investors. These penalties will continue until we can complete our filings and register the common shares into which the investors' financial instruments are convertible. Finally, our revenues are significantly concentrated with one major customer. The loss of this customer or curtailment in business with this customer could have a material adverse affect on our business. These conditions raise substantial doubt about our ability to continue as a going concern.

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We have been dependent upon third party financings as we execute on our business model and plans. While our liquid reserves have been substantially depleted as of June 30, 2006, we completed a \$30.0 million convertible note financing in July 2006 that is expected to fulfill our liquidity requirements through the end of 2006. However, \$15.0 million of this financing is held in escrow, and we are in default on this instrument due to the delay in filing our quarterly financial report for the quarterly period ended June 30, 2006. We have entered into an Amendment Agreement with the holders of the Notes to amend the Notes in certain respects as consideration for the holders' release of the Company's default resulting from its delay in the filing of this quarterly report.

We plan to increase our revenues, improve our gross margins, augment our international business and, if necessary, obtain additional financing. Ultimately, our ability to continue is dependent upon the achievement of profitable operations. There is no assurance that further funding will be available at acceptable terms, if at all, or that we will be able to achieve profitability.

The accompanying financial statements do not reflect any adjustments that may result from the outcome of this uncertainty.

Information about our cash flows

As of June 30, 2006, we reported that net cash used in operating activities was \$7,385,239, net cash provided by financing activities was \$3,211,672 and net cash used in investing activities was \$736,514 during the six months ended June 30, 2006. We had a negative working capital of \$51,012,013 as of June 30, 2006. This negative figure is largely the effect of our recording of \$36,425,561 for derivative liabilities.

Compared to \$2,502,512 of net cash used in operating activities in the six months ended June 30, 2005, our current period net cash used in operating activities increased by \$4,882,727 to \$7,385,239. This increase was the result of our utilization of cash rather than equity to pay service providers in this current period.

Changes in accounts receivable during the six months ended June 30, 2006 resulted in a cash increase of \$1,941,060, compared to a cash increase in receivables of \$26,778 for the same period in 2005, having a net result of an increase of \$1,914,282. Cash utilized for inventory increased during this period by \$2,490,676, compared to cash used of \$54,981 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 six months ended June 30, 2006 contributed to a cash increase of \$5,590,386, whereas the changes in accounts payable and accrued liabilities for the period ended June 30, 2005 amounted to an increase of \$893,461. Cash flows generated through our operating activities was inadequate to cover all of our cash disbursement needs in the period ended June 30, and we had to rely on prior equity and new convertible debt financing to cover operating expenses.

Cash used in the period ended June 30, 2006 in our investing activities was \$736,514 for license and trademark costs, furniture, computer equipment and our purchase of eight vans in the U.S., compared to \$128,135 for the same period in 2005.

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Net cash provided by our financing activities for the six months ended June 30, 2006 was \$3,211,672. Net cash provided by financing activities for the same period in 2005 was \$2,900,870, for a net increase of \$310,802.

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 or fourth quarter of 2006, when we expect that cash supplied by operating activities will approach the anticipated cash requirements for operating expenses. We anticipated the need for additional financing in 2006 to reduce our liabilities, assist in marketing and to improve stockholders' equity status, and we secured \$30 million in senior convertible note financing in July 2006. We have received half of the proceeds from this financing in the third quarter, with the balance held in escrow pending a shareholder vote to increase our authorized shares to cover the escrowed balance. No assurances can be given that we will be able to obtain the approval of our shareholders to increase our authorized shares, or that operating cash flows will be sufficient to fund our operations.

We currently have monthly working capital needs of approximately \$550,000. 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 revenues 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 increase in our unit sales volume, the average unit selling expenses 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 May 12, 2006, we obtained financing in the amount \$2,500,000 and issued promissory notes in that aggregate principal amount to two accredited investors. One of these investors has exercised rights of participation and has reinvested \$1,000,000 of this note in the July 27, 2006 financing described below. The remaining \$1,500,000 principal of the notes has been paid in full with the part of the July 27, 2006 financing proceeds.

On July 27, 2006, we entered into definitive agreements to sell \$30 million senior convertible notes (the "Notes") that are due in 2010 to several institutional and accredited investors in a private placement exempt from registration under the Securities Act of 1933. The notes initially carry a 9% coupon, payable quarterly, and are convertible into shares of common stock at \$0.70 per share. In 2007, the coupon may decline to LIBOR upon the Company achieving certain financial milestones. The Notes will begin to amortize in equal, bi-monthly payments beginning in mid-2007. We issued warrants to purchase 12,857,143 shares of common stock at \$0.73 per share that expire in July 2011 to the investors in the private placement. Under the terms of the financing, we sold \$30 million notes, of which \$15.0 million of the notes are being held in escrow. The release of the funds will be subject to stockholder approval of the increase of our authorized shares from 300,000,000 to 500,000,000 and the effectiveness of a registration statement converting the common stock underlying the Notes, Additional Notes and associated warrants. We will utilize this financing for, among other things, our working capital needs. We have filed a proxy statement seeking such shareholder approval at a Special Meeting of Shareholders.

As a result of our failure to file our June 30, 2006 Form 10QSB timely, an event of default has occurred under the terms of the Notes and the interest rate on the Notes, payable quarterly, was increased from 9% to 14% per annum. Pursuant to the terms of the Notes, upon the occurrence of an event of default, holders of the Notes may, upon written notice to the Company, each require the Company to redeem all or any portion of their Notes, at a default redemption price calculated pursuant to the terms of the Notes. We have entered into an Amendment Agreement with the holders of the Notes to amend the Notes in certain respects as consideration for the holders' release of the Company's default resulting from its delay in the filing of this quarterly report. See Item 3 of Part II of this report, entitled "Default on Senior Securities", for a description of the terms of the Amendment Agreement.

EFFECTS OF INFLATION

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

Information about our cash flows

For the year ended December 31, 2005, we reported that net cash used in operating activities was \$9,301,078, net cash provided by financing activities was \$18,209,600 and net cash used in investing activities was \$4,043,665. We had negative working capital of \$39,287,983 as of December 31, 2005.

Compared to \$3,629,863 of net cash used in operating activities in the year ended December 31, 2004, our current year net cash used in operating activities increased by \$5,671,215 to \$9,301,078. Changes in accounts receivable contributed to an increase in cash used by operating activities of \$3,356,477, as compared to contributing to an increase of \$77,217 for 2004 for a difference of \$3,279,260. Cash used by operating activities increased as a result of changes in inventory during 2005 by \$379,489, compared to cash provided of \$43,339 for the same period in 2004. This was the result of our building inventory during 2005 in connection with the continued implementation of our Master Distribution Agreement with Coca-Cola Enterprises. The changes in accounts payable and accrued liabilities for the year ended December 31, 2005 contributed to a reduction in cash used by operating activities of \$7,294,548, whereas such changes in 2004 contributed to a decrease in cash used by operating

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activities of \$542,282. Cash flows generated by our operating activities were inadequate to cover our cash disbursement needs for the year ended December 31, 2005, and we had to rely on private placement financing, prior equity and new convertible debt financing to cover operating expenses.

Cash used in the year ended December 31, 2005 in our investing activities was \$4,043,665 for license and trademark costs and equipment purchases, compared to \$531,263 for the same period in 2004.

Net cash provided by our financing activities for the year ended December 31, 2005 was 418,209,600. Net cash provided by financing activities for the same period in 2004 was \$4,216,844, for a net increase of \$13,992,756. The increase is attributed to private placement financings amounting to \$20,690,000.

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BUSINESS

Our company

Our company is a Delaware corporation, which was formed on April 27, 1996. We formerly owned the majority interest in two Sino-American joint ventures in China, known as Green Food Peregrine Children's Food Co. Ltd. and Hangzhou Meilijian Dairy Products Co., Ltd. These two joint ventures processed milk products for local consumption in the areas of Shanghai and Hangzhou, China, respectively. We closed Green Food Peregrine in December 1999 and sold our interest in Hangzhou Meilijian Dairy in December 2000.

In December 1999, we obtained Chinese government approval for the registration of a new wholly owned subsidiary in the Wai Gao Qiao "free trade zone" in Shanghai, China. We formed this import-export company to import, export and distribute food products on a wholesale level in China. In addition, China Premium (Shanghai) was our legal presence in China with respect to contractual arrangements for the development, marketing and distribution of branded food products. We ceased all activities of this Chinese subsidiary in April 2004, owing to low sales volume and insufficient financial or logistic resources to market our products profitably in mainland China.

In December 1999, we formed Bravo! Foods, Inc., a wholly owned Delaware subsidiary, which we utilized to advance the promotion and distribution of branded Looney Tunes(TM) products in the United States, through production agreements with local dairy processors. At the end of 2001, we assumed this business, and our U.S. subsidiary ceased functioning as an operating company at that time.

On February 1, 2000, we changed our name from China Peregrine Food Corporation to China Premium Food Corporation. On March 16, 2001 we changed our name to Bravo! Foods International Corp. On October 24, 2006 we changed our name to Bravo! Brands Inc., pursuant to a resolution of our Board of Directors and the affirmative vote of our shareholders at a special meeting of our shareholders called for that purpose, in accordance with Delaware General Corporation Law.

In January 2005, we formed Bravo! Brands (UK) Ltd., a United Kingdom registered company that is wholly owned by Bravo! Brands International Ltd. We will utilize Bravo! Brands (UK) Ltd. to advance the production, promotion and

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distribution of licensed branded products in the United Kingdom through production and sales agent agreements with local entities. Currently, we are evaluating our distribution and product mix in the UK in order to develop and implement a more effective business plan going forward. During this period of re-evaluation, we have ceased production of our products in the United Kingdom.

In March 2005, we formed Bravo! Brands International Ltd., a Delaware subsidiary that may hold license rights for our branded products on an international basis. We may utilize Bravo! Brands International Ltd. to hold and exploit certain license rights for branded products developed by us in international markets through local second-tier subsidiaries such as Bravo! Brands (UK) Ltd.

The Business

Our business involves the development and marketing of our own Slammers(R) and Bravo!(TM) trademarked brands, the obtaining of license rights from third party holders of intellectual property rights to other trademarked brands, logos and characters and, in certain international markets, the granting of production and marketing rights to processor dairies to produce branded flavored milk utilizing our intellectual property. In addition, we anticipate the commencement of exporting our products to Mexico and Canada in the fourth quarter 2006 and first quarter 2007, respectively.

In the United States and the UK, we generate revenue from the sales of finished branded flavored milks to retail consumer outlets or distributors for resale to retail consumer outlets. Currently, we use a single third-party processor in the United States and another in the UK to produce all of our single serve milk based beverages. We anticipate the expanded production of our products with the addition of HP Hood, LLC as a second processor in the United States, with production commencing in the fourth quarter 2006. We recognize revenue in the United States at the gross amount of our invoices for the sale of finished product to wholesale buyers or distributors. We take title to our branded flavored milks when they are shipped by our third party processors and recognize as revenue the gross wholesale price charged to our wholesale customers or distributors. Our gross margin is determined by the reported wholesale price less (i) the cost charged by our third party processor, to produce our branded milk products and (ii) shipping costs.

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Internationally, we generate revenue primarily through our sale to processors of flavor ingredients utilized for our products, which are developed and refined by us, and the grant of production rights to processors to produce our flavored milks. The consideration paid to us under these production contracts consists of fees charged for our grant of production rights for our branded flavored milks plus a charge for flavor ingredients.

All of our third party licensing agreements recognize that we will use third party production agreements for the processing of flavored milk products and that the milk products will be produced and may be sold directly by those processors. Our responsibilities under our third party production agreements are to design and provide approved packaging artwork, to help determine the best tasting flavors for the particular market and to assist in the administration, promotion and expansion of the respective branded milk programs. Ingredients for the flavored milks are formulated to our specifications and supplied on an exclusive basis by either Givaudan Flavors Group or Mastertaste, both of which are flavor development and production companies. In the United States, we are

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the vendor of record for our direct wholesale business and assume the responsibility for sales and marketing of our flavored milks.

Master Distribution Agreement - Coca-Cola Enterprises

On August 31, 2005, we entered into a ten-year Master Distribution Agreement with Coca-Cola Enterprises Inc that we believe will significantly expand the distribution and sales of our products. The agreement provides for the distribution of our products in Coca-Cola Enterprises in the United States, all U.S. possessions, Canada, Belgium, continental France, Great Britain, Luxembourg, Monaco and the Netherlands, as well as any other geographic territory to which, during the term of the agreement, Coca-Cola Enterprises obtains the license to distribute beverages of The Coca-Cola Company. The appointment of Coca-Cola Enterprises as the exclusive distributor for our products was effective August 30, 2005, has an effective distribution date of October 31, 2005 and an expiration date of August 15, 2015. Coca-Cola Enterprises has the option to renew the Master Agreement for two subsequent periods of ten additional years. Attendant to the execution of the agreements we issued three-year warrants to Coca-Cola Enterprises for the right to purchase 30 million shares of our common stock at an exercise price of \$0.36 per share.

Under the terms of the agreement, Coca-Cola Enterprises is obligated to use all commercially reasonable efforts to solicit, procure and obtain orders for our products and merchandise and actively promote the sale of such products in the Territory, as defined in the agreement. The agreement establishes a comprehensive process for the phased transition from our existing system of distributors to Coca-Cola Enterprises, dependent upon distribution territory, product and sales channels. Under the agreement, Coca-Cola Enterprises implemented its distribution on a ramp-up basis, commencing , October 31, 2005. Coca-Cola Enterprises' distribution in other Territory areas will be dependent upon, among other things, third-party licensing considerations and compliance with the regulatory requirements for the products in foreign countries.

We have agreed to provide the following:

- o strategic direction of our products;
- o maintain sales force education and support;
- o actively market and advertise our products and design and develop point of sale materials and advertising. We are also responsible for handling:
- o consumer inquiries;
- o product development; and
- o the manufacture and adequate supply of our products for distribution by Coca-Cola Enterprises.

The terms of the agreement require our company to maintain the intellectual property rights necessary for our company to produce, market and/or distribute and for Coca-Cola Enterprises to sell our products in the Territory. We are obligated to spend a fixed dollar amount through 2006 on national and local advertising, including actively marketing the Slammers trademark, based on a plan as mutually agreed each year. Beginning in 2007, the Company shall allocate an amount per year for such activities in each country in the defined Territory equal or greater than an agreed upon percentage of our total revenue in such country.

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Under the agreement, Coca-Cola Enterprises has the right of first refusal to distribute any new products developed by our company, and the agreement establishes a process for the potential expansion of Coca-Cola Enterprises' distribution of the Company's products to new territories. Either party may terminate the agreement for a material breach, insolvency or bankruptcy. Coca-Cola Enterprises may terminate (i) for change of control by our company, (ii) upon a material governmental regulatory enforcement action or threatened governmental action having a material adverse consumer or sales impact on our products and (iii) upon twelve months notice after August 15, 2006.

Third Party Intellectual Property Licenses

Marvel Enterprises, Inc. (Super Heroes(R) and Marvel Heroes(R))

On February 4, 2005, we entered into a two-year license agreement for the utilization of Marvel Heroes characters on our flavored milks in the United Kingdom and Ireland. We agreed to a royalty rate of 4% of net wholesale sales in the territory against the prepayment of a guaranteed minimum royalty amount. We have adopted the unit sales model currently used in the United States. We have outsourced the infrastructure required for the production, promotion, marketing, distribution and sale of our products through a production agreement with Waterfront Corporation in the UK and through an exclusive sales agency agreement with Drinks Brokers, Ltd. a UK registered company responsible for the launch and growth of several major beverage brands in the licensed territory. Currently, we are evaluating our distribution and product mix in the UK in order to develop and implement a more effective business plan going forward. During this period of re-evaluation, we have ceased production of our Marvel co-branded products in the United Kingdom.

In March 2005, we entered into a new one-year license agreement with Marvel Enterprises, Inc. to use its Super Heroes(R) properties to promote our branded milk products in the United States, Canada and Mexico. Under the terms of the license agreement, we agreed to a royalty rate of 5% of net wholesale sales in the United States, 4% for school lunch channels and 2.5% for school hot lunch programs. We also agreed to a 11% royalty on the amount invoiced to dairy processors for production in Canada and Mexico. We have not renewed this license agreement owing to the failure of our Marvel co-branded products to achieve expected market penetration.

On February 4, 2005, we entered into an eighteen month license agreement for the utilization of Marvel Heroes characters on our flavored milks in the Middle East in conjunction with our execution of third party production agreements for the manufacture and sale of our products in Saudi Arabia and Oman. We agreed to a 11% royalty on the amount invoiced to third party dairy processors for "kits" in the territory against the prepayment of a guaranteed minimum royalty amount. We have not renewed this license agreement owing to the failure of our Marvel co-branded products to achieve expected market penetration.

Chattanooga Bakery, Inc. (Moon Pie(R))

In October 2003, we commenced a two-year license agreement with MD Enterprises, Inc. on behalf of Chattanooga Bakery. Under the terms of the license agreement, we have the exclusive right to manufacture, distribute, market and sell Moon Pie(R) flavored milk products in the United States. We agreed to a variable royalty rate of 3% to 2% of net wholesale sales, depending upon volume. This license has been extended verbally.

Masterfoods USA (Starburst(R), Milky Way(R), 3 Musketeers(R))

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On September 21, 2004, we entered into a licensing agreement with Masterfoods USA, a division of Mars, Incorporated, for the use of Masterfood's Milky Way(R), Starburst(R) and 3 Musketeers(R) trademarks in connection with the manufacture, marketing and sale of single serve flavored milk drinks in the United States, its Possessions and Territories, and US Military installations worldwide. The license limits the relationship of the parties to separate independent entities. The initial term of the license agreement expires December 31, 2007. We have agreed to pay a royalty based upon the total net sales value of the licensed products sold and advance payments of certain agreed upon guaranteed royalties. Ownership of the licensed marks and the specific milk flavors to be utilized with the marks remains with Masterfoods. We have a right of first refusal for other milk beverage products utilizing the Masterfoods marks within the licensed territory. This license has amended to include additional Masterfoods brands and to extend the term to December 31,2012.

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In March 2006, we signed two new seven year licensing agreements for Canada and Mexico with Masterfoods, effective January 1, 2006. The licensing agreement for Canada covers single servings of the Mars(R) Brand flavored milk drink, Starburst(R) brand flavored milk drink and the 3 Musketeers(R) brand flavored milk. In Mexico the licensing agreement is for single serve Milky Way(R) brand flavored milk, Starburst(R) brand flavored milk Drink and the 3 Musketeers(R) Brand Flavored Milk. These licensing agreements cover most trade channels including grocery, food service, Club Stores as well as schools with children over the age of 13, colleges and universities, vending machines, amusement parks and movie theaters.

Diabetes Research Institute

In June 2005, we extended our licensing agreement with Diabetes Research Institute to June 30, 2007. We agreed to a variable royalty rate of 0.25% of net sales. We use this intellectual property, which consists of a logo plus design on the labels of our Slim Slammers(TM) product line.

In House Intellectual Property

In addition to our third-party licenses, we have developed and sell flavored milks bearing trademarks developed by us, including "Slammers(R)" "Pro Slammers(TM)", "Slim Slammers(R)" and "Breakfast Blenders(TM)"..

Production Contracts/Administration

Our operations in the United States, the Middle East, Mexico and Canada are run directly by Bravo! Brands Inc. Our United Kingdom business is managed through our wholly owned subsidiary Bravo! Brands International Ltd., which is a UK registered company.

United States

Since 2003, our milk products have been produced by Jasper Products, located in Joplin, Missouri. In addition to the production of our products, Jasper has provided the infra-structure necessary for our invoicing, shipping and collection activities. We anticipate that we will assume direct responsibility for these activities in house in the fourth quarter 2006. We will expand production of our products with the addition of HP Hood, LLC as a second processor, with production commencing in the fourth quarter 2006

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United Kingdom

In February 2005, we executed an exclusive sales agency agreement with Drinks Brokers, Ltd., a division of Tactical Sales Resources Limited for sales of our product lines in the United Kingdom. Pursuant to terms of the agreement, Bravo! appointed Drinks Brokers as its Sales Agent in the United Kingdom for the marketing, promotion, distribution and sale of Bravo!'s Slammers(R) Marvel Heroes line of flavored milk, as well as other product lines that Bravo! may introduce to the UK in the near future.

Drinks Brokers utilizes its established networks to manage all matters relating to the sale and effective distribution of Bravo!'s products within the United Kingdom, including the solicitation of sales from customers in applicable market segments, marketing, advertising and promotion of Bravo!'s products, distribution, and merchandising.

Our products are processed in the United Kingdom by Waterfront Corporation Limited, on a third party co-pack basis. We generate revenue in the United Kingdom from the unit sales of finished branded flavored milks to retail consumer outlets. Currently, we use a single third-party processor in the United Kingdom to produce all of our single serve milk based beverages. We recognize revenue in the United Kingdom at the gross amount of our invoices for the sale of finished product to wholesale buyers. We take title to our branded flavored milks when they are shipped by our third party processor and recognize as revenue the gross wholesale price charged to our wholesale customers. Our gross margin is determined by the reported wholesale price less the cost charged by Waterfront Corporation Limited.

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Middle East

In September 2005, we entered into a third party production agreement with Oman National Dairy Products Co. Ltd., a Middle East dairy processor, headquartered in Ruwi, Oman. Oman Dairy produces Slammers (R) branded flavored milks, including the Marvel line, for distribution in Oman and Saudi Arabia. We generate revenue in the Middle East by the sale of flavor ingredients and production rights for our branded products. We are not responsible for production, marketing, promotion or distribution of the product in the Middle East.

Products

In September of 2000, we commenced our United States business using third party dairy processors for the production and sale of fresh branded flavored milk in single serve plastic bottles. Our flavored milk products had a limited shelf life of, generally, 21 days.

In early 2002, we developed branded extended shelf life and aseptic, bacteria free, long life flavored milk products. The extended shelf life product was sold in 11.5oz single serve plastic bottles and had to be refrigerated. The shelf life of this product is 90 days. In addition, we developed a line of aseptic packaged milks that do not require refrigeration and have a shelf life of 8 months. This product was packaged in an 11.2oz Tetra Pak Prisma(TM) sterile paper container. Both of these products were introduced to the public in the second and third quarters of 2002.

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Commencing in May 2002, we developed a new branded fortified flavored milk product under the "Slammers(R) Fortified Reduced Fat Milk" brand name. We use our Slammers(R) brand in conjunction with our licensed third party trademarks. Slammers(R) is made from reduced fat milk and is fortified with essential vitamins. The introduction of this new product and the phase out of our "regular" branded milks occurred in the fourth quarter of 2002. Our Slammers(R) flavored milks were sold in the United States in single serve extended shelf life plastic bottles, as well as the long life aseptic Tetra Pak Prisma(TM) package.

In November 2002, we introduced Slim Slammers(R) Fortified Milk, a low calorie version of our Slammers (R)Fortified Reduced Fat Milk. Slim Slammers(R) Fortified Milk has no added sugar and is sweetened with sucralose, a natural sweetener made from sugar. Slim Slammers(R) Fortified Milk is made from 1 percent fat milk, is fortified with 11 essential vitamins and is available in the same flavors as our Slammers(R) brand. We reintroduced this product in the United States with a new package and formulation during 2004.

In 2004, we announced our product development and brand strategy for seven new, separate and distinct single serve product lines: Ultimate Slammers(TM), Slim Slammers(R), Moon Pie Slammers(R), Pro-Slammers(TM), Starburst (R) Slammers(R), 3 Musketeers(R) Slammers(R) and Milky Way(R) Slammers(R). These product lines are all fortified and positioned to appeal directly to profiled demographic segments, including teens and pre teens for Ultimate Slammers(TM), Starburst (R) Slammers(R) and Milky Way(R) Slammers(R), teens and sports enthusiasts for Pro-Slammers(TM), young to old for Moon Pie(R) Slammers(R) and health conscious adults for Slim Slammers(R) and 3 Musketeers(R) Slammers(R).

We launched four brands in 2004, beginning with Ultimate Slammers(R) in April and achieved national distribution of Ultimate Slammers(R) through both retail grocers and convenience stores by mid- summer. Roughly 10,000 retail supermarket stores carried this brand nationwide in 2004. This was followed by our June launch of Slim Slammers(R) and Moon Pie (R)Slammers(R) and the July release of our Pro-Slammers(TM) line.

In January 2005, we launched our Slammers(R) Starburst line of Fruit & Cream Smoothies utilizing a "shelf stable" re-sealable plastic bottle for milk products that does not require refrigeration. Until that launch, all single serve flavored milk in plastic bottles required refrigeration for storage, distribution and shelf placement. The tactical advantage of distributing milk products ambient enables us to side-step a major entry barrier in our immediate consumption strategy. Refrigerated milk is relegated to dairy direct-store-delivery systems that are controlled by either regional dairy processors or larger national dairy holding companies. Shelf stable re-sealable plastic bottles allow us to use a more traditional distribution network that accommodates the non-refrigerated beverages. Also, milk products packaged in shelf stable re-sealable plastic bottles have significantly longer shelf life for storage, allowing us to ship in full truckloads resulting in decreased freight costs. We currently are converting all of our products to "shelf stable" re-sealable plastic bottles.

In the first quarter 2005, we launched our Slammers(R) MilkyWay and 3 Musketeers lines utilizing a "shelf stable" re-sealable plastic bottle for milk products that does not require refrigeration, under the Masterfoods License. During this period, we also introduced Breakfasts Blenders(TM), which is a meal replacement milk beverage developed for the "on the go" consumer.

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Industry Trends

The flavored milk industry has grown from approximately \$750 million in 1995 to \$2.5 billion in 2004. The single serve portion of this category is difficult to measure, since approximately 2/3 of the sales in the single serve milk industry are sold in immediate consumption channels or other channels that do not report scan-data. For example, Wal-Mart has become the largest retailer in the USA for milk, selling an estimated 15% of total milk sales. Wal-Mart does not report sales for the industry data resources embodied in A.C. Neilson or IRI analyses. Similarly, most convenience stores and "up-and-down-the-street" retailers in the immediate consumption sales channels do not report either, and neither do vending and schools.

We have analyzed the industry using reports available from milk and beverage industry sources. These include the total, segmented and rate of growth sales that are reported, the immediate consumption sales rates for all consumables compared to retail grocery buying patterns and opinions of experts in the milk industry as to the relative size of reported versus non-reported sales. Based upon these reports and analysis, we believe the current size of the single serve flavored milk industry (packaging 16 oz. or smaller) is approximately \$1.5 billion domestically. The industry grew at annual rates of between 5 and 15 percent during the last five years but was virtually flat in the last two years while it digested the remarkable 10-year growth rates. We believe that this space is positioned for growth now and will continue to be in the immediate consumption channels such as vending, convenience stores and food service market segments.

Market Analysis

The flavored milk business is a relatively new category in the dairy field. The flavored "refreshment" segment is both the fastest growing and most profitable category in the industry and is receiving the most attention in the industry today. Pioneered by Nestle with the NesQuik line and Dean Foods with its Chug brand, this "good for you" segment is in demand both in the U.S. and internationally.

The International Dairy Foods Association reports that, although flavored milk currently amounts to only 5 to 6 percent of milk sales, it represents over 59% of the growth in milk sales. With the total milk category exceeding \$9.3 billion in 2004, the flavored milk segment was approximately \$2.5 billion in 2004, with single serve flavored milk growing to approximately \$1.5 billion for the same period. Statistically, as the flavored segment grows, the entire category grows as well. In the past ten years, selling more flavored milks has resulted in more sales of white milk as well.

In addition, the International Dairy Foods Association and Dairy Management Inc. have reported on studies suggesting that dairy products may help in weight loss efforts when coupled with a reduced calorie diet, based on data associating adequate calcium intake with lower body weight and reduced body fat. We continue to develop a niche in the single serve flavored milk business by utilizing strong, national branding as part of the promotion of our Slammers(R), Pro Slammers(TM) and Slim Slammers(R) products. This niche has as its focus the increased demand for single serve, healthy and refreshing drinks.

Market Segment Strategy

The Bravo! product model addresses a very clear and concise target market. We know from experience that the largest retailers of milk products are demanding new and more diverse refreshment drinks, specifically in the dairy area, in response to consumer interest and demand. To that end, we have and will continue to differentiate our products from those of our competitors through

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innovative product formulations and packaging designs, such as those implemented in our Slammers(R) and Pro Slammers(TM) fortified milk product lines and our Slim Slammers(R) low calorie, no sugar added products.

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Our Slammers(R) milk products have had promising results penetrating this arena as consumers continue to look for healthy alternatives to carbonated beverages. The positioning of our products as a healthy, fun and great tasting alternative refreshment drink at competitive prices to more traditional beverages creates value for the producer and the retailer alike. This "profit orientation" for the trade puts old-fashioned milk products in a whole new light. The consumer is happy, the retailer is happy and the producer is able to take advantage of the value added by the brand and the resulting overall increase in milk sales.

We currently are implementing a very important "first-to-market" strategy that we feel will dramatically reposition our brands and company. Until now, all single served flavored milk in plastic bottles required refrigeration for storage, distribution, and shelf placement. Our strategic partner, Jasper Products, became America's first processor with FDA approval to offer a "shelf stable" re-sealable plastic bottle for ambient milk products that do not require refrigeration.

The tactical advantage of distributing our milk products at ambient temperatures enables us to side-step a major entry barrier in our immediate consumption strategy. Most beverages are distributed ambient either through beverage distribution channels or warehouse "candy and tobacco" distributors. Refrigerated milk was relegated to dairy direct-store-delivery systems that are controlled by either regional dairy processors or larger national dairy holding companies such as Dean Foods or H.P. Hood. We avoid the roadblock of being reliant upon our competition for chilled distribution since we are now in the unique position to use the more traditional distribution network that accommodates non-refrigerated beverages. We currently are converting all of our products into ambient "shelf stable" re-sealable plastic bottles.

We have been and continue to pursue a strategic goal of placing Slammers(R) milks in elementary, middle and high schools through ala carte lunch programs and vending facilities in school cafeterias, and we are promoting our Slim Slammers(R) milks as low calorie, non-sugar added alternatives to traditional soft drinks. Penetration of this market segment has been limited by logistic and economic concerns of school administrators in the push to remove traditional carbonated soft drinks from schools in favor of milk and milk based products.

Competition

Nestle pioneered the single serve plastic re-sealable bottle which has become the standard for this industry, and they currently enjoy a dominant market share. Dean Foods owns a number of regional single serve brands that are sold in this format, and they also have an exclusive license to produce Hershey brand flavored milk nationwide. Our analysis indicates that the Nestle's Nesquik brand accounts for approximately 30-35 percent of the U.S. single serve milk category, while Hershey's market share is approximately half that, at around 15%. The other competition comes from private label and regional dairy brands. Our Slammers(R) milks are the only other single serve brand distributed nationally in America in plastic re-sealable containers.

Our resources for promotions have been limited, and we run significantly less

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promotional activities in comparison to our competitors. Where we are in direct competition with Nestle and Hershey, however, we have been able to maintain competitive sales levels.

Employees

We have thirty three full time employees, twenty one of which work at our North Palm Beach corporate offices.

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Description of Property

Neither our company nor our subsidiaries currently own any real property. As of February 1, 1999, we moved our corporate offices from West Palm Beach to 11300 US Highway 1, Suite 202, North Palm Beach, Florida, pursuant to a lease with HCF Realty, Inc., having an initial term of five years. The current aggregate monthly rent amounts to approximately \$7,468, which includes an expansion of our office space from 2,485 square feet to 3,490 square feet. The term of this lease has been extended for six years to October 30, 2010.

We have executed a lease for an expansion of our office space in North Palm Beach, Florida to include an additional 2,190 square feet at \$18.50 per square foot.

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MANAGEMENT

DIRECTORS AND EXECUTIVE OFFICERS

The directors, executive officers and significant employees/advisors are as of October 11, 2006, as follows. Our directors serve for staggered terms of two years or until their successors are elected. On March 6, 2003, the Board voted to reduce the board positions by one to nine.

Name of Officer and Age		Position with the Company	Year Appointed
Bravo! Brands Inc.			
Stanley A. Hirschman	59	Chairman and Director	2000
Roy G. Warren	50	Director, Chief Executive Officer	1997/1999
Jeffrey J. Kaplan	57	Chief Financial Officer	2005
Tommy E. Kee	57	Chief Accounting Officer	2003
Roy D. Toulan, Jr.	60	Vice President, Corporate Secretary, General Counsel	2003
Michael Edwards	46	Chief Revenue Officer	2000
Benjamin Patipa	49	Chief Operating Officer	2002
Arthur W. Blanding	77	Director	1999
Robert Cummings	63	Director	1997
John McCormack	47	Director	1997
Phillip Pearce	78	Director	1997

The experience and background of the Company's executive officers follow:

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Mr. Stanley A. Hirschman - Chairman and Director since September 2000

Mr. Hirschman is president of CPointe Associates, Inc., an executive management and consulting firm specializing in solutions for emerging companies with technology-based products. CPointe was formed in 1996. In addition, he is a director of Energy & Engine Technology, 5 G Wireless Communications, Bronco Energy Fund and GoldSpring, Inc. Prior to establishing CPointe Associates, Mr. Hirschman was vice president of operations of Software, Etc., Inc., a retail software chain, from 1989 until 1996. Mr. Hirschman has also held senior management positions with retailers T.J. Maxx, Gap Stores and Banana Republic. Mr. Hirschman currently serves on the Audit Committee of the Company's board of directors.

Mr. Roy G. Warren - Chief Executive Officer since May 1999; Director since 1997

Mr. Warren serves as our Chief Executive Officer and as a director. As Chief Executive Officer, Mr. Warren continues to develop strategy for our growth and external financial matters.

For 15 years from 1981 through 1996, Mr. Warren was in the securities brokerage industry. During those years, Mr. Warren acted as executive officer, principal, securities broker and partner with brokerage firms in Florida, most notably Kemper Financial Companies, Alex Brown & Sons and Laffer Warren & Company. Mr. Warren currently serves on the Executive Committee of the Company's board of directors.

Mr. Warren also serves as a director of our wholly owned U.K. subsidiary, Bravo! Brands (UK) Ltd.

Mr. Tommy E. Kee -Chief Financial Officer 2003 - 2005; Chief Accounting Officer since 2005

Tommy Kee joined our company in March 2003 as Chief Financial Officer. Mr. Kee currently serves as our Chief Accounting Officer for our company. He graduated with an MBA from the University of Memphis and a BS degree in accounting from the University of Tennessee. Before joining us, he served for several years as CFO for Allied Interstate, Inc. in the West Palm Beach area. Prior to that, Mr. Kee served as CFO and Treasurer for Hearx Ltd. a West Palm Beach, Florida public company. He also served 18 years as International Controller and Financial Director with the Holiday Inns Inc. organization in Memphis and Orlando. Mr. Kee handles all financial management and reporting for our company and works closely with our external auditors and general counsel for financial reporting and SEC compliance.

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Mr. Jeffrey Kaplan - Chief Financial Officer since 2005

Mr. Kaplan joined Bravo! in October 2005 as Chief Financial Officer. Mr. Kaplan served as Executive Vice President and Chief Financial Officer of BIB Holdings, Ltd. and then its private company spin-off, Elk Canyon Ltd., designers of jeanswear and loungewear, from October 2003 to September 2005. He served as Executive Vice President of Business Affairs of Viewpoint Corporation, a graphics software company, from November 2001 to September 2003 and its Executive Vice President and Chief Financial Officer from February 2001 to October 2001. Mr. Kaplan served as Executive Vice President and Chief Financial Officer of Rare Medium Group Inc., an IT professional services company, from October 1999 to February 2001. Mr. Kaplan received his Bachelor of Arts degree in political science from Brown University in 1970 and his Masters of Business

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Administration in finance from New York University in 1972.

Mr. Roy D. Toulan, Jr. - Vice President, Corporate Secretary, General Counsel since 2003

Roy Toulan began with the original founders as outside corporate counsel in 1997 and has been responsible for all of our corporate and business legal work, including securities matters. Mr. Toulan became Corporate Counsel in October 2002, when he left his private legal practice in Boston, and Vice President in January 2003. He received his law degree from Catholic University in Washington D.C., and for the first 15 years of his career practiced corporate and securities litigation with large law firms in New York and Boston. Before joining our company full time, he spent the last 18 years of his private practice in Boston, Massachusetts, engaged in general corporate and securities law helping companies with corporate structure and funding, both domestically and internationally. Mr. Toulan also serves as a director of our wholly owned U.K. subsidiary, Bravo! Brands (UK) Ltd.

Mr. Michael Edwards - Vice President Sales since 2003

Mr. Edwards has been with our company in a sales and marketing capacity since 2000. Prior to that time, he worked for 5 years in beverage marketing research for Message Factors, Inc., a Memphis, Tennessee marketing research firm. Mr. Edwards has a BS degree from Florida State University in Management and Marketing and spent 13 years in the banking industry, leaving CitiBank to join Message Factors in 1995.

Dr. Benjamin Patipa - Director of School/Vending 2002 - 2004; Vice President, Chief Operating Officer since 2004

Dr. Patipa is a pediatrician with over fifteen years of experience in directing operations, marketing, sales and facilitating growth in both public and private companies. In 1987, Dr. Patipa founded and served as the chairman and CEO of Weight For Me, Inc., a company that developed a proprietary program which pioneered the delivery of weight control and nutrition services to the over 12 million obese children and adolescents in America. Weight For Me earned national and international recognition as the premier program for the control of obesity in children and adolescents. Dr. Patipa also served at HEARx Ltd. as a member of the Executive Operating Committee and Sonus USA, Inc., where he lead the company's franchise licensing and buying group business in the Southeast United States. Most recently, Dr. Patipa served as Senior Vice President and Operational Head of eHDL/HealthNet Data Link, Inc., a national electronic healthcare information company.

Mr. Arthur W. Blanding - Director Since November 1999

Mr. Blanding is president of The Omega Company, an international dairy industry consulting company. Mr. Blanding has over 50 years experience in management of dairy processing, sales and strategic planning consulting. He graduated from Michigan State University in 1956, with a degree in food science, and in 1964 from Oregon State University with a degree in Food Microbiology and attended Harvard Business School.

As President of The Omega Company for the past 20 years, Mr. Blanding has completed over 200 projects successfully, both in the U.S. and abroad. Clients of The Omega Company include Abbott International, Cumberland Farms, Dairy Gold, Farm Fresh, Inc., Haagen Dazs, Labatt, Ross Laboratories and Stop & Shop

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Company, among others. Mr. Blanding was a consultant for the design and construction of the dairy processing facility built in Shanghai by Green Food Peregrine. The Omega Company is a party to a consulting contract with the Company concerning technical and production issues.

Mr. Robert J. Cummings - Director Since 1997

Mr. Cummings' work experience includes ten years in purchasing at Ford Motor Company. In 1975, he founded and currently operates J & J Production Service, Inc., a manufacturing representative business, which is currently responsible for over \$300 million in annual sales.

Mr. Phillip Pearce - Director Since 1997

Mr. Pearce is a "retired" member of the securities industry. Mr. Pearce served as Chairman of the NASD during which time he was instrumental in the founding of NASDAQ. Additionally, Mr. Pearce was a former Director of E.F. Hutton and has served as Governor of the New York Stock Exchange. Since his retirement in 1988, Mr. Pearce has remained active in the securities industry as a corporate financial consultant. Mr. Pearce serves on the compensation committee of our board of directors. Mr. Pearce also serves on our audit committee.

Based upon a review of the appropriate Forms 3, 4 and 5 and any amendments to such forms filed pursuant to Section 16(a), we report the following: during 2005, our directors and executive officers did not file Form 4s for options that were authorized pursuant to an incentive stock option compensation plan until issu