CREATIVE BAKERIES INC
Form 10QSB
November 16, 2004

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

FORM 10-QSB

(Mark one)

(X) Quarterly Report Pursuant To Section 13 or 15(d) of the Securities Exchange Act of 1934

For the Quarterly Period Ended September 30, 2004

OR

(_) Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1939 For the transition period from to

Commission File Number 1-13984

CREATIVE BAKERIES, INC.
(Exact name of Registrant as specified in its Charter)

NEW YORK	13-3832215
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)

20 PASSAIC AVENUE, FAIRFIELD, NJ 07004
(Address of principal executive offices)

(973) 808-9292
(Registrant's telephone number, including area code)

Former name: William Greenberg Jr. Desserts and Cafes, Inc.

CHECK WHETHER THE ISSUER (1) FILED ALL REPORTS REQUIRED TO BE FILED BY SECTION 13 OR 15(D) OF THE EXCHANGE ACT DURING THE PAST 12 MONTHS (OR FOR SUCH SHORTER PERIOD THAT THE REGISTRANT WAS REQUIRED TO FILE SUCH REPORTS), AND (2) HAS BEEN SUBJECT TO SUCH FILING REQUIREMENTS FOR THE PAST 90 DAYS.

YES X NO __

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

YES __ NO X

As of November 15, 2004, there were 6,815,926 shares of the registrant's common stock, par value $0.001 per share, outstanding.

CREATIVE BAKERIES, INC. AND SUBSIDIARIES
NINE MONTHS ENDED SEPTEMBER 30, 2004 AND 2003

INDEX

PART I. FINANCIAL INFORMATION

CREATIVE BAKERIES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEET - SEPTEMBER 30, 2004

ASSETS

Current assets:	
Cash and cash equivalents	$ 1,569
Accounts receivable, less allowance for doubtful accounts of $400	268,852
Inventories	231,370
Prepaid expenses	33,394
Total current assets	535,185

Property and equipment, net	333,825
Other assets:	
Security deposits	5,765
Tradename and licensing agreements, net of amortization	74,625
	80,390
	$ 949,400

LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIENCY)

Current liabilities:	
Long-term debt, current portion	$ 48,567
Notes payable, officer, current portion	578,294
Accounts payable	555,215
Accrued expenses	91,799
Warrants payable	115,625
Total current liabilities	1,389,500
Other liabilities:	
Long-term debt, net of current portion	82,168
Notes payable, officer, net of current portion	51,076
Deferred rent	17,340
	150,584
Stockholders' equity (deficiency):	
Preferred stock $.001 par value, authorized 2,000,000 shares, none issued	
Common stock, $.001 par value, authorized 30,000,000 shares, issued and outstanding 6,815,926 shares	6,815
Additional paid in capital	11,387,849
Deficit	(11,985,348)
	(590,684)
	$ 949,400

See notes to consolidated financial statements.

CREATIVE BAKERIES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS
NINE AND THREE MONTHS ENDED SEPTEMBER 30, 2004 AND 2003

	Nine Months Ended Sept 30 2004	Nine Months Ended Sept 30 2003	Three Months Ended Sept 30, 2004	Three Months Ended Sept 30, 2003
Net sales	$ 1,746,549	$ 2,222,256	$ 588,644	$ 742,941
Cost of sales	1,573,260	1,958,231	535,110	658,201
Gross profit	173,289	264,025	53,534	84,740
Selling, general and administrative expenses	732,745	560,344	228,587	182,952
Write-off of tradename rights	17,981	--	17,981	--
Gain on sale of asset	(10,000)	--	(10,000)	--
Cancellation of indebtedness	--	(57,978)	--	(57,978)
Interest expense	48,941	6,860	16,474	3,037
	789,667	509,226	253,042	128,011
Loss from continuing operations	(616,378)	(245,201)	(199,508)	(43,271)
Income from discontinued operations	--	134,265	--	134,265
Net income (loss)	($ 616,378)	($ 110,936)	($ 199,508)	$ 90,994
Earnings per common share:				
Primary and fully diluted:				
Loss from continuing operations	($ 0.10)	($ 0.04)	($ 0.03)	$ 0.00
Discontinued operations	0.00	0.02	0.00	0.02
Net income (loss) per common share	($ 0.10)	($ 0.02)	($ 0.03)	$ 0.02
Weighted average number of common shares outstanding	5,991,304	5,449,680	6,631,202	5,455,446

See notes to consolidated financial statements.

CREATIVE BAKERIES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
NINE MONTHS ENDED SEPTEMBER 30, 2004 AND 2003

	2004	2003
Operating activities:		
Loss from continuing operations	($616,378)	($245,201)
Adjustments to reconcile loss from		

continuing operations to cash used in operating activities:		
Depreciation and amortization	77,710	64,869
Common stock issued for services	100,000	5,000
Write-off of tradename rights	17,981	--
Gain on sale of equipment	(10,000)	--
Cancellation of indebtedness	--	(57,978)
Changes in other operating assets and liabilities from operations:		
Accounts receivable	(93,869)	(100,637)
Inventory	(57,851)	8,858
Prepaid expenses	32,682	22,433
Security deposits	(1,051)	--
Accounts payable	192,806	45,669
Accrued expenses	10,155	28,720
Deferred rent	11,820	(13,242)
Net cash used in operating activities	(335,995)	(241,509)
Investing activities:		
Purchase of property and equipment	(93,222)	--
Sale of tradename rights and equipments	35,000	--
Net cash used in investing activities	(58,222)	--
Financing activities:		
Proceeds from notes payable	90,152	50,124
Payment of notes payable	(256,769)	--
Proceeds from officers loans	487,107	144,563
Payment of officers' loans	(7,227)	--
Net cash provided by financing activities	313,263	194,687
Net decrease in cash and cash equivalents	(80,954)	(46,822)
Cash and cash equivalents, beginning of period	82,523	51,155
Cash and cash equivalents, end of period	$ 1,569	$ 4,333
Supplemental disclosures:		
Cash paid during the year for:		
Interest:	$ 25,786	$ --

See notes to consolidated financial statements.

F-4

CREATIVE BAKERIES, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NINE MONTHS ENDED SEPTEMBER 30, 2004 AND 2003

1. The accompanying unaudited financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-QSB. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments considered necessary for a fair presentation have been included. The results of operations for the nine months ended is not necessarily indicative of the results to be expected for the full year. For further information, refer to the consolidated financial statements and footnotes thereto included in the Company's annual report for the year ended December 31, 2003 included in its Annual Report filed on Form 10-KSB.

   Going concern:

   The Company has incurred losses from continuing operations over the last several quarters. Management has described its plan of action in regard to this uncertainty in its latest annual report filed December 31, 2003.

2. Principles of consolidation:

   The accompanying consolidated financial statements include the accounts of the Company and all of its wholly owned subsidiaries. Intercompany transactions and balances have been eliminated in consolidation.

3. Nature of operations, risks and uncertainties:

   The Company is a manufacturer of baking and confectionery products, which are sold to supermarkets, food distributors, educational institutions, restaurants, mail order and to the public. Although the Company sells its products throughout the United States, its main customer base is on the East Coast of the United States.

   The process of preparing financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues and expenses. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

   The Company maintains all of its cash balances in New Jersey financial institutions. The balances are insured by the Federal Deposit Insurance Company (FDIC) up to $100,000. At September 30, 2004, the Company had no uninsured cash balances.

4. Accounts receivable:

   Following is a summary of receivables at September 30, 2004:

Trade accounts	$ 269,252
Less allowance for doubtful accounts	(400)

	$ 268,852

5. Inventories:

Inventories at September 30, 2004 consist of:

Finished goods	$ 98,569
Raw materials	57,619
Supplies	60,182
Work in process	15,000
	$231,370

6. Property and equipment:

The following is a summary of property and equipment at September 30, 2004.

Baking equipment	$1,482,810
Furniture and fixtures	100,998
Leasehold improvements	180,422
	1,774,230
Less: Accumulated depreciation and amortization	1,430,405
	$ 333,825

Depreciation expense was $60,409 and $60,369 respectively, for the nine months ended September 30, 2004 and 2003.

The useful lives of property and equipment for purposes of computing depreciation are:

	Years
Machinery and equipment	10
Furniture and computers	5
Leasehold improvements	10-15

7. Loan acquisition costs:

The Company incurred loan acquisition costs for October 2003 in the amount of $16,957 in connection with one of the notes payable financings the Company entered into in 2003. In June 2004, the related note was paid in full and the remaining acquisition costs were expensed. Loan amortization expense for the three and nine months ended September 30, 2004 were $0 and $12,798.

CREATIVE BAKERIES, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
NINE MONTHS ENDED SEPTEMBER 30, 2004 AND 2003

8. Tradename and licensing agreements:

On March 7, 2002, the Company purchased the rights to the tradenames Brooklyn Cheesecake Company, Inc. and Brooklyn Cheesecake and Desserts Company, Inc. and the related corporate logo in exchange for 300,000 shares of the Company's common stock, valued on the purchase date at $90,000. The tradename rights are being amortized on the straight-line basis over a fifteen-year term. Amortization expense was $4,500 for each of the nine months ended September 30, 2004 and 2003.

The Company had a licensing agreement for the use of the trademark and name of one of its subsidiaries and various recipes and methods used in the production of baked and other goods. The agreement calls for royalties to be paid upon reaching certain sales levels by the licensee. The trademark rights were sold on August 26, 2004 for $25,000.

9. Notes payable to executive officer:

Note dated May 21, 2004 in the amount of $54,000, payable on demand, with interest at the rate of 8.5% per annum. The note is secured by all of the Company's assets. This note consolidates in a single promissory note several loan advances received by the Company in the first quarter of 2004 plus an additional $20,000 during the quarter ended June 30, 2004.

Note dated June 15, 2004 in the amount of $317,000, with interest at the rate of 13% per annum. Interest payments are due on the last day of each month with the note maturing on August 31, 2004. The note is secured by all of the Company's assets. The note has been extended to November 30, 2004.

This note repaid and retired a former note payable in the amount of $250,000 that was to become due on August 31, 2004.

Note payable effective April 2, 2003 in the original amount of $54,000, with a variable interest rate that was 8.4% at September 30, 2004. Monthly payment of principal and interest are approximately $1,300. Note is unsecured and due on demand. The outstanding balance on the loan was $47,022 at September 30, 2004.

Note dated January 1, 2003 in the original amount of $88,000 with an interest rate of 8.5% per annum. Interest only payments are due for the first eighteen months and principal and interest are due monthly thereafter until the maturity date of December 31, 2005. The balance on the note was $102,941 at September 30, 2004 including accrued interest.

Note dated September 30, 2004 in the amount of $108,407, payable on demand, with interest at the rate of 8.5% per annum. The note is secured by all of the Company's assets. This note consolidates in a single promissory note several loan advances received by the Company in the third quarter of 2004.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
NINE MONTHS ENDED SEPTEMBER 30, 2004 AND 2003

9. Notes payable to executive officer (continued):

Maturities for the next five years are as follows:

September 30, 2005	$578,294
September 30, 2006	26,854
September 30, 2007	11,400
September 30, 2008	11,400
September 30, 2009	1,422
	$629,370

10. Long-term debt:

Note dated May 25, 2004 in the amount of $31,000, payable on demand, with interest at the rate of 8.5% per annum. The note is secured by all of the assets of the Company. This note consolidates in a single promissory note several loan advances received in during 2004. The holder of the note is a member of the Board of Directors.

Capitalized lease with an order date of March 9, 2004, in the amount of $47,940 plus a 10% buyout amount of $4,794. Monthly payments of principal and interest in the amount of $1,051 commencing April 7, 2004, payable over 60 months. The lease matures in April 2009. The balance of the lease was $48,911 at September 30, 2004. The note is guaranteed by a member of the Board of Directors.

Note payable effective August 18, 2003 in the original amount of $50,000, with a variable interest rate that was 8.25% at September 30, 2004. Monthly payments of principal and interest are approximately $1,000. Note is unsecured and due on demand. The outstanding balance on the loan was $48,324 at September 30, 2004. The holder of the note is a member of the Board of Directors.

Note dated June 28, 2004 in the amount of $2,500, payable on demand, with interest at the rate of 8.5% per annum. The holder of the note is a member of the Board of Directors.

Maturities for the next five years are as follows:

September 30, 2005	$ 48,567
September 30, 2006	16,542
September 30, 2007	17,400
September 30, 2008	18,214
September 30, 2009	19,488
Thereafter	10,524
	$130,735

11. Common Stock:

During the quarter ended June 30, 2004 the Company issued 314,715 shares of its common stock upon exercise of warrants.

CREATIVE BAKERIES, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
NINE MONTHS ENDED SEPTEMBER 30, 2004 AND 2003

11. Common Stock (continued):

The issuance of the common stock was exempt from registration pursuant to Section 4(2) of The Securities Act of 1933, as amended.

12. Commitments and contingencies:

The Company rents office, plant and warehouse space in New Jersey under a five-year lease that expires August 31, 2008. Rental expense for the nine months ended September 30, 2004 and 2003 was $149,351 and $180,838, respectively.

The minimum future rentals on the facilities are as follows:

September 30, 2005	145,000
September 30, 2006	156,500
September 30, 2007	162,500
September 30, 2008	154,000
	$618,000

The Company has 1,156,250 outstanding common stock purchase warrants that give the warrant holder the right to elect that the Company repurchase each warrant for consideration consisting of $.10 per warrant plus 40% of one share of the Company's common stock or exercise the warrants at $.6875 per warrant less the $.10 feature.

The warrants originally expired on December 31, 2000 and have been extended for a one-year period over the last two years. The Company has again extended the expiration date of the warrants from December 31, 2003 to December 31, 2004 in exchange for the warrant holders' forbearance. The total number of shares represented by the warrants is 462,500.

The Company entered into an agreement for legal services commencing November 1, 2003. The agreement calls for half of the monthly retainer fee of $1,500 to be paid through the issuance of an equivalent number of restricted common shares based on an agreed upon market value formula. At September 30, 2004 18,682 shares of the Company's common stock was due under the agreement.

13. Concentration of Credit Risk

As of September 30, 2004, the Company had included in accounts receivable two customers whose outstanding balances equaled or exceeded 10% of total accounts receivable. If either of the customers should default, it could have a significant impact on the Company's operation.

CREATIVE BAKERIES, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
NINE MONTHS ENDED SEPTEMBER 30, 2004 AND 2003

14. Income taxes:

The Company accounts for income taxes in accordance with Statement of Financial Accounting Standards ("SFAS No. 109") "Accounting for Income Taxes", which requires an asset and liability approach to financial accounting and reporting for income taxes. Deferred income tax assets and liabilities are computed annually for differences between the financial statement and income tax basis of assets and liabilities that will result in taxable or deductible amounts in the future based on enacted tax laws and rates applicable to the periods in which the differences are expected to affect taxable income.

Valuation allowances are established when necessary to reduce deferred tax assets to the amount expected to be realized. Income tax expense is the tax payable or refundable for the period, plus or minus the change during the period in deferred tax assets and liabilities. There was no cumulative effect of adoption or current effect in continuing operations mainly because the Company has accumulated a net operating loss. The Company has made no provision for a deferred tax asset due to the net operating loss carryforward because a valuation allowance has been provided which is equal to the deferred tax asset. It cannot be determined at this time that a deferred tax asset is more likely than not to be realized.

The Company has a loss carryforward of $9,860,154 that may be offset against future taxable income. The carryforward losses expire at the end of the years 2006 through 2023.

15. Warrants:

At September 30, 2004 the Company had outstanding 1,156,250 common stock purchase warrants with an exercise price of $.6875 each, which expire on December 31, 2004. These warrants are the same warrants as described in Note 12, commitments and contingencies, and are exercisable as described in Note 12 or they can be used to purchase 40% of one share of common stock per one warrant. The warrants are included in the computation of outstanding stock options and warrants as described in the Company's December 31, 2003 annual report filed on Form 10-KSB.

CREATIVE BAKERIES, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
NINE MONTHS ENDED SEPTEMBER 30, 2004 AND 2003

16. Earnings per share:

Primary earnings per share is computed based on the weighted average number of shares actually outstanding plus the shares that would have been outstanding assuming conversion of the common stock purchase warrants which are considered to be common stock equivalents. However, according to FASB 128, effective for financial statements issued and annual periods beginning after December 15, 1997, entities with a loss from continuing operations should not include the exercise of potential shares in the calculation of earnings per share since the increase would result in a lower loss per share. Thus, common stock purchase warrants and stock options are excluded from the calculation of earnings per share.

Reconciliation of shares used in computation of earnings per share:

	2004	2003
Weighted average of shares actually outstanding	5,991,304	5,449,680
Common stock purchase warrants		
Primary and fully diluted weighted average common shares outstanding	5,991,304	5,449,680

ITEM 2. MANAGEMENTS DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

OVERVIEW

The company continues to seek additional financing required for its continued operations. The company continues to streamline its operations. This includes upgrading its accounting, shipping and receiving departments as well as funding a quality control staff. Established quality assurance systems must be in place to attract both domestic and international high volume distributors.

Increased cost of staff as well as historically high costs of raw materials and freight contributed to the third quarter loss of $ 199,508. The $ 154,297, reduction in gross sales for the third quarter of 2004 as compared to the same period of 2003, can be attributed to raising prices on marginally priced items (muffins and mini cakes), The result was retailers either purchasing from a different vendor or discontinuing the items.

New products have been developed to support items for export and the low carbohydrate markets.

Management will continue to refine operations and control costs. Active solicitation for companies to be acquired by or merged, continue to be evaluated.

RESULTS OF OPERATIONS

THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2004 COMPARED TO THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2003

The Company had consolidated net sales of $588,644 and $742,941 for the three months ended September 30, 2004 and 2003 respectively, a decrease of $154,297, or 20.8%. Consolidated net sales for the nine months ended September 30, 2004 and 2003 were $1,746,549 and $2,222,264 respectively, a decrease of $475,715, or 21.4%. The decrease in sales is a result of raising prices for which customers either changed vendors or discontinued items.

The cost of sales were $535,110 and $658,201 and $1,573,260 and $1,958,231 for the three and nine months ended September 30, 2004 and 2003 respectively, a decrease of $123,091 (18.7%) and $384,971 (19.7%) respectively. The reduction was a direct result of the decreased sales. The gross profit percentages for the three and nine months ended September 30 average 9.1% and 9.9% respectively. The inability to purchase ingredients efficiently, due to poor cash flow, and the slow summer season, were the leading contributors to these decreases.

Selling, general and administrative expenses however, totaled $228,587 and $182,952 for the three months ended September 30, 2004 and 2003 and $732,745 and $560,344 for the nine months ended September 30, 2004 and 2003 respectively. This was an increase of $45,635 (24.9%) and $172,401 (30.8%) respectively. This was a result of managements upgrade of various departments personnel.

During the quarter ended September 30, 2004, the Company wrote off the balance of trademark rights after selling such rights for $25,000. Additionally, the Company sold fully depreciated equipment for $10,000. There were no similar transactions for the quarter ended September 30, 2003.

The company had a cancellation of debt in the three months ended September 30, 2003 of $57,978, which was a result of renegotiating its current warehouse lease. The write-off was for an accumulated rent straight-lining liability. There was no cancellation of debt as of September 30, 2004.

Interest expense was $16,474 and $3,037 for the three-months ended September 30, 2004 and 2003 respectively, an increase of $13,437 or 442.4%. The increase of $42,081 or 613.4% to $48,941 from $6,860 for the nine months ended September 30, 2004 and September 30, 2003 were due substantially to additional loans from the Chairman and Chief Executive Officer and a second director.

SEGMENT INFORMATION

Not applicable since retail operations were discontinued.

LIQUIDITY AND CAPITAL RESOURCES

Since its inception the Company's only source of working capital has been the $8,455,000 received from the issuance of its securities.

As of September 30, 2004, the Company had a negative working capital from continuing operations of approximately $854,315 as compared to a negative working capital of $372,879 at September 30, 2003.

Although the Company has previously been successful in obtaining sufficient capital funds through issuance of common stock and warrants, there can be no assurance that the Company will be able to do so in the future.

RISK FACTORS

The following information sets forth facts that could cause our actual results to differ materially from those contained in forward looking statements we have made in this quarterly report and those we may make from time to time.

If We Are Unable to Obtain Additional Funds, We May Have to Significantly Curtail the Scope of Our Operations and Alter Our Business Model.

Management believes that profitable operations are essential for the Company to become viable. The present business plan contemplates profitable operations will be achieved. However, in the event that profitable operations are not achieved, our present financial resources should allow us to continue operations through December 31, 2004. If additional financing is required and not available when required or is not available on acceptable terms, we may be unable to continue our operations at current levels or at all. We are engaged in seeking additional financing and we continue to impose actions designed to minimize our operating loses. We would consider strategic opportunities, including investment in the Company, a merger or other acceptable transactions, to sustain our operations. We do not currently have any agreements in place with respect to any such strategic opportunity, and there can be no assurances that additional capital will be available to us on acceptable terms, or at all. If we are unable to obtain additional financing or to arrange a suitable strategic opportunity, our business will be placed in significant financial jeopardy.

Our Independent Auditors have Stated that Our Recurring Losses from Operations and Our Accumulated Deficit Raise Substantial Doubt About Our Ability to Continue as a Going Concern.

The report of our independent Certified Public Accountants dated March 17, 2004 for the December 31, 2003 consolidated financial statements contained an explanatory paragraph that states that our recurring losses from operations and accumulated deficit raise substantial doubt about our ability to continue as a going concern. The consolidated financial statements do not include any adjustments that might result from the outcome of that uncertainty. We believe we will need to raise more money to finance our operations and sustain our business model. We may not be able to obtain additional financing on acceptable terms, or at all. Any failure to raise additional financing will likely place us in significant financial jeopardy.

F-13

Our Financial Condition Has Adversely Affected Our Ability to Pay Suppliers on a Timely Basis Which May Jeopardize Our Ability to Continue Our Operations Necessary to Continue Shipment and Sales of Our Products.

As of September 30, 2004 our accounts payable totaled $555,215 of which $105,109 were over sixty (60) days old. While we have negotiated payment plans with our major suppliers and vendors whereby we pay C.O.D. with a nominal pay down of any past due amounts, there can be no assurances that we will be able to continue these payment plans or obtain the necessary materials and/or ingredients to produce our baked goods. If we are unable to obtain additional financing on acceptable terms, our ability to make timely payments to our critical suppliers will be jeopardized and we will be unable to obtain critical supplies and services to maintain and continue to manufacture, ship and to sell our products.

The Company And the Price Of Our Shares May Be Adversely Affected By the Public Sale of a Significant Number of the Shares Eligible For Future Sale.

All but a very small number of the outstanding shares of our Common Stock are freely tradable. Sales of Common Stock in the public market could materially adversely affect the market price of our Common Stock. Such sales may also inhibit our ability to obtain future equity or equity-related financing on acceptable terms. At our Annual Meeting of Stockholders held August 4, 2004 our stockholders approved an increase in the number of authorized shares of Common Stock from 10,000,000 shares to 30,000,000 shares. The issuance and registration of additional shares could have a significant adverse effect on the trading price of our Common Stock.

We Have Obtained Secured Financing With the Pledge of All of Our Assets Which Will Have Priority Over Security Interests of Any Holders of Our Preferred Shares.

We have previously procured financing to continue our operations at arms length transaction from the following directors: Ronald L. Schutte, the Chief Executive Officer and Chairman of the Board, in the amount of $629,370 and Anthony J. Merante, a Director of the Company, in the amount of $79,324. We intend to grant security interest to these two directors.

We HAVE Incurred Losses in the Past and We Expect To Incur Losses in the Future.

We have incurred losses in each year since our inception. Our net loss after write off of certain old liabilities, for the fiscal year ended December 31, 2003 was $146,614 and our accumulated deficit as of December 31, 2003 was $11,368,970. We expect operating losses to continue for the foreseeable future as we continue our marketing and sales activities and conduct additional development of our products.

RISKS RELATED TO THE MARKET FOR OUR COMMON STOCK

The Price of Our Common Stock is Subject to Volatility

Our Common Stock has traded as low as $.06 per share and as high as $1.02 per share in the twelve (12) month ended September 30, 2004. Our average trading volume is extremely low. As such, a significant sale of our Common Stock may result in a major fluctuation of the market price. Some other factors leading to the volatility include:

- Price and volume fluctuation in the stock market at large which do not relate to our operating performance;
- Fluctuation in our operating results;
- Concerns about our ability to finance our continuing operations;
- Financing arrangements which may require the issuance of a significant number of shares in relation to the number shares of our Common Stock currently outstanding;
- Fluctuations in market demand and supply of our products.

Our Common Stock is Currently Traded on the Over-The-Counter-Bulletin-Board and an Investor's Availability to Trade Our Common Stock May Be Limited by Trading Volume

The trading volume in our common shares has been relatively limited. A consistently active trading market for our Common Stock may not continue on the Over-The-Counter-Bulletin-Board. The average trading volume in our Common Stock on the Over-The-Counter-Bulletin-Board for the month ended September 30, 2004 was approximately 3,772 shares.

RISKS RELATED TO OUR BUSINESS

We are Currently Dependent on a Few Major Customers for a Significant Portion of Our Revenues

We currently record sales from approximately 53 customers. None of these customers account for 10% of our revenues. We intend to establish long-term relationships with our customers and continue to expand our customer base. While we diligently seek to become less dependent on any one customer, it is likely that certain business relationships may result in one or more customers contributing to a significant portion of our revenue in any given year for the foreseeable future.

We Have Limited Ability to Sell and Market Our Products

At the current time, we have limited marketing capability as compared with many of our competitors and we do not have a large sales, promotion and marketing budget as we are constrained by our lack of working capital and our ability to raise the necessary cash flow from our business operations to re-invest in our marketing programs. As a result of our limited marketing capabilities, we are forced to rely upon customer referrals and a part-time sales force. Our competitors have direct advertising and sales promotion programs for their products as well as sales and marketing personnel that may have a competitive advantage over us in contacting prospective customers. Our position in the industry is considered minor in comparison to that of our competitors, and while we continue to develop and explore new marketing methods and techniques and programs directed toward foreign customers, our ability to compete at the present time is limited. Our success depends upon the ability to market, penetrate and expand markets and form alliances with distributors. However, there can be no assurances that:

- Our direct selling efforts will be effective;
- We will obtain an expanded degree of market acceptance;
- We will be able to successfully form relationships with distributors to market our products.

We Depend Upon the Marketability of Primary Products

Frozen cheesecake, pre-portioned desserts and tart shells are our primary products. We may have to cease operations if any of our primary products fails to achieve market acceptance and/or generate significant revenues. Additionally, the marketability of our products is dependent upon customer taste, preference and acceptance, which are variables that may be beyond our ability to control.

We May Not Be Able to Successfully Develop and Market New Products That We Plan to Introduce

We plan to develop new baked goods for production. There are numerous developmental issues that may preclude the introduction of these products into commercial sale. If we are unable to establish market acceptance for these products, we may have to abandon them or alter our business plan. Such modifications to our business plan will likely delay achievement of milestones related to revenue increases and achievement of profitability.

We May Experience Problems in Manufacturing Sufficient Quantities and Commercial Quantities of Our Products

We may encounter difficulties in the production of our current and any future products due to such reasons as: o Lack of working capital necessary to gain market acceptance;

- Limited equipment and resources to produce product;
- Quality control and assurance;
- Supplies of ingredients; and
- Shortages of qualified personnel.

F-15

Any of the foregoing or other difficulties would affect our ability to meet increases in demand should our products gain market acceptance.

We Claim Certain Proprietary Rights in Connection with the Combination of Ingredients and Manufacture of Our Products

Although we do not possess any patent protection for the formulation and production of our products, we believe that the combination of ingredients and our method of production are unique and important to our ability to produce quality baked goods and desserts. As we do not possess intellectual property protection, there is the risk that we may not be able to prevent a competitor from duplicating our recipes or our methods of production.

We Use Certain Names that Do Not Have Protection under Federal or State Trademark Laws.

Our use of the names, "Creative Bakeries, Inc.," "Brooklyn Cheesecake Company, Inc." and "Brooklyn Cheesecake and Desserts Company," under which Creative Bakeries conducts business and has established goodwill may be subject to legal challenge since there are other businesses operating under similar names and we have not registered trademarks for these names with either federal or state agencies. In addition, we utilize packaging with depictions of the Brooklyn Bridge in designed or stylized formats in conjunction with the names, "Brooklyn Cheesecake Company, Inc." and "Brooklyn Cheesecake and Deserts Company," which have not been registered with either federal or state agencies. In that we do not possess registered trademarks for our trade names or trade dress, we may face opposition to our usage of same that may require us to discontinue usage of certain trade names or packaging, which in turn will require us to re-establish goodwill associated with our product names and packaging. We are seeking trademark registrations with the United States Patent and Trademark Office but there can be no assurances that we will be successful in obtaining a registered mark.

Attraction and Retention of Key Personnel

Our future success depends in significant part on the continued services of key sales and senior management personnel. The loss of Ronald L. Schutte, our Chairman and Chief Executive Officer, or other key employees could have a material adverse affect on our business, results of operations and financial condition. There can be no assurances that we can attract, assimilate or retain other highly qualified personnel in the future.

We have Limited Product Liability Insurance Due to the High Cost of Same

We manufacture, market and sell baked goods and dessert products. In the event our products are tainted/spoiled or cause illness in consumers, we may face potential claims. Due to the high cost of product liability insurance, we only maintain insurance coverage of $2,000,000 to protect against claims associated with the consumption of our product. Any claim against us, whether or not successful, may result in our expenditure of substantial funds and litigation. Further, any claims may require management's time and use of our resources and may have a materially adverse impact on us.

Geographic Concentration in New York City Tri-State Area

Most of Creative Bakeries' retail and institutional/wholesale customers are located in the New York City metropolitan area. Adverse changes in economic conditions in the New York City metropolitan area are more likely to affect the Company's business, financial condition and results of operations than if its operations were spread over a larger market area.

Government Regulation: Maintenance of Licenses and Certification

Creative Bakeries is subject to numerous state regulations relating to the preparation and sale of food. It is also subject to federal and state laws governing the Company's relationship with employees, including minimum wage requirements, overtime, working and safety conditions, and citizenship requirements. The failure to obtain or retain the required food licenses or to be in compliance with applicable governmental regulations, or any increase in the minimum wage rate, employee benefits costs (including costs associated with mandated health insurance coverage) or other costs associated with employees, could adversely affect our business, financial condition or results of operations. In addition, the Company's products are certified as kosher by independent entities. We believe that we will continue to meet the kosher certification requirements. However, the failure to retain or obtain such certification in the future could have a material adverse effect on our business, financial condition or results of operations.

Continuing Changes in Food Service Industry

The results of operations of food service businesses are affected by, among other things, changes in consumer tastes, national, regional and local economic conditions, demographic trends, traffic patterns and the type, number and location of competing units. Multi-unit food service companies also can be substantially adversely affected by publicity resulting from poor food quality, illness, injury or other health concerns or operating difficulties stemming from one unit or a limited number of units, or health concerns as to particular types of food or methods of preparing food. There can be no assurance that the Company will be able to maintain the quality of its food products. In addition, dependence on frequent deliveries of fresh ingredients also subjects food service businesses, such as Creative Bakeries, to the risk that shortages or interruptions in supply caused by adverse weather or other conditions could adversely affect the availability, quality and cost of ingredients.

Competition

The baking industry is a highly competitive and highly fragmented industry. Creative Bakeries competes with national, regional and local bakeries as well as supermarket chains that have in-store bakeries. Many of these competitors are larger; more established and have greater financial and other resources than we do. Competition in both the retail and institutional/wholesale baking industry is based on product quality, brand name loyalty, price and customer service. Competitors with significant economic resources in the baking industry could, at any time, enter the wholesale or retail bakery/cafe business.

Quarterly Fluctuations; Seasonality; Possible Volatility of Stock Price

Creative Bakeries' operating results may be subject to seasonal fluctuations, especially during the Thanksgiving, Christmas, Chanukah, Easter and Passover seasons. Such variations could cause the market price of the Common Stock to fluctuate substantially. In addition, the stock markets in the United States have, from time to time, experience significant price and volume fluctuations that are unrelated or disproportionate to the operating performance of individual companies. Such fluctuations may adversely affect the price of the Company's Common Stock.

Possible Adverse Effect of Issuance of Preferred Stock

Creative Bakeries' Restated Certificate of Incorporation authorizes the issuance of 1,000,000 (increased to 2,000,000 at August 4, 2004 annual meeting) shares of Preferred Stock, with designations, rights and preferences as determined from time to time by the Board of Directors. As a result of the foregoing, the Board of Directors can issue, without further shareholder approval, Preferred Stock with dividend, liquidation, conversion, voting or other rights that could adversely affect the voting power or other rights of the holders of Common Stock. The issuance of Preferred Stock could, under certain circumstances, discourage, delay or prevent a change in control of the Company.

ITEM 3. CONTROLS AND PROCEDURES

As of the end of the period covered by this Quarterly Report on Form 10-QSB, we carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer, of the effectiveness of the design and operation of our disclosure controls and procedures. Based on the forgoing, our Chief Executive Officer has concluded that our disclosure controls and procedures were effective as of the end of the quarter ended September 30, 2004.

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer, as appropriate, to allow timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable and not absolute assurance of achieving the desired control objectives. In reaching a reasonable level of assurance, management was required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures. In addition, the design of any system of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions; over time, control may become inadequate because of changes in conditions, or the degree of compliance with policies or procedures may deteriorate. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

PART II - OTHER INFORMATION

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.

The company held its 2004 Annual Meeting of Stockholders on August 4, 2004 with the following proposal being submitted:

1. To elect six directors of the Company to hold office until their successors are elected and have been qualified.

2. To approve authorization to the Board of Directors to amend the Certificate of Incorporation to authorize a reverse split of the outstanding shares of common stock in any split ratio between 1:2 and 1:25 at the discretion of the Board of Directors.

3. To approve an increase of authorized capital stock from 10,000,000 shares of common stock to 30,000,000 shares of common stock and from 1,000,000 shares of preferred stock to 2,000,000 shares of preferred stock.

4. To approve authorization of the Board of Directors to amend the Certificate of Incorporation at their discretion to change the name of the Company.

5. To approve Creative Bakeries, Inc. 2004 Stock Incentive Plan.

6. To ratify the appointment of Zeller, Weiss, & Kahn, LLP as Creative Bakeries, Inc.'s independent auditors for the fiscal year ending December 31, 2004.

7. To transact any other business that may properly come before the meeting or any adjournment or postponement thereof.

The record date for determining stockholders eligible to vote at the meeting was June 11, 2004. On the record date, there were 6,501,211 shares of the Company's common stock outstanding and eligible to vote. There were present at the meeting 5,425,637 shares, representing 83.46% of the common stock outstanding.

Each nominee for the Board of Directors was elected at the 2004 Annual Meeting. The following number of votes was cast for and against each nominee.

	For	Against
Ronald Schutte	4,556,537	0
Vincent Bocchimmuzzo	4,937,037	0
Anthony Merante	4,937,037	0
Carmelo L. Foti	4,937,037	0
Ben Borsellino	4,937,037	0
David Rabe	4,937.037	0

The stockholders also approved the five remaining proposals. The following votes were tabulated.

		For	Against	Abstain
Proposal	2	4,921,312	23,500	480,825
Proposal	3	4,551,537	394,100	480,000
Proposal	4	4,939,037	6,600	480,000
Proposal	5	2,947,236	393,900	2,084,501
Proposal	6	4,939,037	4,600	482,000
Proposal	7	4,484,183	389,200	552,254

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits

31.1 Certification of President and Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

32.1 Certification pursuant to 18 U.S.C. section 1350, as adopted pursuant to Section 906 of the Sarbanes - Oxley Act of 2002.

(b) Reports on Form 8-K

None.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Dated November 15, 2004

Signatures	Title
/s/Ron Schutte ----------------------------- Ron Schutte	President, Chief Executive Officer/Director

F-20