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COLOR IMAGING INC
Form 10-Q
July 31, 2003
1639953.rtf

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

[x] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934
for the quarterly period ended June 30, 2003

or

[] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934
for the transition period from _____ to _____

Commission file number 0-18450

SECURITIES AND EXCHANGE COMMISSION

COLOR IMAGING, INC.
(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation or organization)

13-345342

(IRS Employer Identification Number)

4350 Peachtree Industrial Blvd, Suite 100
Norcross, GA

(Address of principal executive offices)

3007

(Zip Code)

(770) 840-1090

Registrant's telephone number, including area code

Not Applicable

Former name, former address and former fiscal year, if changed since last report

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 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
--- ---

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Indicate by check mark whether the registrant is an accelerated filer (as defined in Exchange Act Rule 12b-2). Yes No ☒
 --- ---

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practical date.

As of July 28, 2003, there were 12,925,005 shares outstanding of Common Stock.

COLOR IMAGING, INC. QUARTERLY REPORT ON FORM 10-Q FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2003 INDEX

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COLOR IMAGING, INC. CONDENSED BALANCE SHEETS

ASSETS

	30 Jun-03 (Unaudited)	31-Dec-02 (Audited)
	-----	-----
CURRENT ASSETS		
Cash	\$ 2,551,178	\$ 128,501
Accounts receivable, net	1,968,875	2,390,019
Inventories	6,325,787	5,080,237
Related party portion of IDR bond	83,160	83,160
Other current assets	359,104	304,672
	-----	-----
TOTAL CURRENT ASSETS	11,288,104	7,986,589
	-----	-----
PROPERTY, PLANT AND EQUIPMENT - NET	6,895,429	7,038,111
	-----	-----
OTHER ASSETS		
Related party portion of IDR bond	735,340	735,340
Deferred offering costs	--	121,924
Other assets	224,481	231,571
	-----	-----
TOTAL OTHER ASSETS	959,821	1,088,835
	-----	-----
	\$ 19,143,354	\$ 16,113,535
	=====	=====
LIABILITIES & STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Revolving credit lines	\$ --	\$ 1,022,470
Accounts payable	2,812,690	3,543,680
Current portion of notes payable	5,396	363,789
Current portion of bonds payable	350,000	350,000
Notes payable - related parties	336,191	401,937
Other current liabilities	613,827	507,782
	-----	-----
TOTAL CURRENT LIABILITIES	4,118,104	6,189,658
	-----	-----
LONG TERM LIABILITIES		
Notes payable	14,836	989,667
Bonds payable	3,095,000	3,095,000
Notes payable - related parties	318,820	598,063
Deferred tax liability	248,534	--
	-----	-----
LONG TERM LIABILITIES	3,677,190	4,682,730
	-----	-----
TOTAL LIABILITIES	7,795,294	10,872,388
	-----	-----
COMMITMENTS & CONTINGENCIES		
STOCKHOLDERS' EQUITY		
Common stock, \$.01 par value, authorized 20,000,000 shares; 12,925,005 and 8,437,965 shares issued and outstanding on June 30, 2003 and December 31, 2002, respectively	129,250	84,380
Additional paid-in capital	13,035,258	7,205,909
Accumulated deficit	(1,683,108)	(2,049,142)

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Treasury stock, at cost, 66,670 shares	(133,340)	--
	-----	-----
TOTAL STOCKHOLDERS' EQUITY	11,348,060	5,241,147
	-----	-----
	\$ 19,143,354	\$ 16,113,535
	=====	=====
See accompanying notes		

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COLOR IMAGING, INC. CONDENSED STATEMENTS OF OPERATIONS (UNAUDITED)

	THREE MONTH PERIODS ENDED		SIX MONTH PERIODS ENDED	
	30-JUN-03	30-JUN-02	30-JUN-03	30-JUN-02
	-----	-----	-----	-----
SALES	\$ 5,058,589	\$ 7,970,300	\$10,687,994	\$15,631,623
COST OF SALES	3,519,174	6,878,347	7,829,329	13,316,635
	-----	-----	-----	-----
GROSS PROFIT	1,539,415	1,091,953	2,858,665	2,314,988
	-----	-----	-----	-----
OPERATING EXPENSES				
Administrative	426,144	329,140	892,791	694,615
Research & development	325,514	239,623	597,481	451,107
Sales & marketing	388,346	335,825	755,620	612,077
	-----	-----	-----	-----
	1,140,004	904,588	2,245,892	1,757,799
	-----	-----	-----	-----
INCOME FROM OPERATIONS	399,411	187,365	612,773	557,189
	-----	-----	-----	-----
OTHER INCOME (EXPENSE)				
Other income	60,379	22,328	108,525	29,205
Financing expenses	(34,298)	(90,866)	(110,264)	(165,820)
	-----	-----	-----	-----
	26,081	(68,538)	(1,739)	(136,615)
	-----	-----	-----	-----
INCOME BEFORE TAXES	425,492	118,827	611,034	420,574
PROVISION FOR INCOME TAXES	171,000	46,000	245,000	161,250
	-----	-----	-----	-----
INCOME FROM CONTINUING OPERATIONS	254,492	72,827	366,034	259,324

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DISCONTINUED OPERATIONS (Note 2)

(Loss) from operations of
subsidiary disposed of -
net of income taxes

	--	(92,824)	--	(163,082)
	-----	-----	-----	-----
NET INCOME (LOSS)	\$ 254,492	\$ (19,997)	\$ 366,034	\$ 96,242
	=====	=====	=====	=====

INCOME (LOSS)

PER COMMON SHARE - BASIC

Continuing operations \$.02 \$.01 \$.03 \$.03
Discontinued operations -- (.01) -- (.02)

	-----	-----	-----	-----
	\$.02	\$ --	\$.03	\$.01
	=====	=====	=====	=====

INCOME (LOSS)

PER COMMON SHARE - DILUTED

Continuing operations \$.02 \$.01 \$.03 \$.03
Discontinued operations -- (.01) -- (.02)

	-----	-----	-----	-----
	\$.02	\$ --	\$.03	\$.01
	=====	=====	=====	=====

WEIGHTED AVERAGE

SHARES OUTSTANDING

Basic 12,887,408 10,099,880 11,134,003 10,099,724
Assumed conversion -- -- -- --

	-----	-----	-----	-----
	12,887,408	10,099,880	11,134,003	10,099,724
	=====	=====	=====	=====

See accompanying notes

COLOR IMAGING, INC. CONDENSED STATEMENTS OF CASH FLOWS FOR THE SIX MONTH PERIODS ENDED JUNE 30 (UNAUDITED)

	2003	2002
	-----	-----
Cash flows from operating activities:		
Net income from continuing operations	\$ 366,034	\$ 259,324
Adjustments to reconcile net income to net cash provided (used) by operating activities:		
Depreciation and amortization	289,500	263,123
Deferred income taxes	248,534	79,001
(Increase) decrease in:		
Accounts receivable and other receivables	421,144	(1,122,760)
Inventories	(1,245,550)	1,141,646
Prepaid expenses and other assets	74,583	2,520
(Decrease) in:		

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Accounts payable and accrued liabilities	(624,945)	(595,161)
	-----	-----
Net cash (used in) provided by continuing operations	(470,700)	27,693
Net cash flows of discontinued operations	--	(174,671)
	-----	-----
Net cash (used by) operating activities	(470,700)	(146,978)
	-----	-----
Cash flows (used in) investing activities:		
Capital expenditures	(146,819)	(331,311)
	-----	-----
Net cash (used in) investing activities	(146,819)	(331,311)
	-----	-----
Cash flows from financing activities:		
Net (payments) under line of credit	(1,022,470)	(190,334)
Net proceeds from sale of common stock	5,917,086	143,351
Repurchase of common shares and warrants	(176,207)	--
Net proceeds from related party borrowings	--	500,000
Principal payments on related party borrowings	(344,989)	--
Principal payments of long-term debt	(1,333,224)	(166,636)
	-----	-----
Net cash provided by financing activities	3,040,196	286,381
	-----	-----
Net increase (decrease) in cash	2,422,677	(191,908)
Cash at beginning of year	128,501	393,981
	-----	-----
Cash at end of period	\$ 2,551,178	\$ 202,073
	=====	=====

See accompanying notes

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COLOR IMAGING, INC. NOTES TO INTERIM CONDENSED FINANCIAL STATEMENTS June 30, 2003 (Unaudited)

NOTE 1. BASIS OF PRESENTATION

The accompanying unaudited interim condensed financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and with the instructions to Form 10-Q. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals and adjustments) considered necessary for a fair presentation have been included. Operating results for the three and six months ended June 30, 2003 are not necessarily indicative of the results that may be expected for the year

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ended December 31, 2003.

NOTE 2. DISCONTINUED OPERATIONS

On September 30, 2002, the Company completed a share exchange agreement with Digital Color Print, Inc. and four of its former directors, whereby the Company received 1.7 million shares of its common stock in exchange for all of the shares of the common stock of its subsidiary, Logical Imaging Solutions, Inc. Based upon guidance provided by APB 29 in connection with accounting for nonmonetary transactions, the fair value of the 1.7 million shares of common stock received was approximately \$2,678,993; the fair value (approximating the net book value) of Logical Imaging Solutions, Inc. plus the transaction costs incurred.

Following is summary financial information for the Company's discontinued Logical Imaging Solutions, Inc. subsidiary:

	For the Three Months Ended June 30,		For the Six Months June 30,	
	2003	2002	2003	
(Loss) from discontinued operations:				
Before income taxes	\$ --	\$ (154,824)	\$ --	\$ (
Income tax provision (benefit)	--	(62,000)	--	(
Net (loss) from discontinued operations	\$ --	\$ (92,824)	\$ --	\$ (
	=====	=====	=====	=====

Pursuant to the share exchange agreement, the Company also received a warrant to purchase approximately 15% of the then outstanding common stock of Digital Color Print, Inc. or Logical Imaging Solutions, Inc. The warrant has not been assigned any value, since it is not cashless, increases from \$1.50 to \$2.25 and then to \$3.25 per share each year over three years, expires after three years, is not registered for resale and has no current market.

NOTE 3. COMMON STOCK

On February 27, 2003, the Company entered into an agreement with a stockholder to repurchase 150,000 shares of common stock and warrants to purchase 300,000 shares of the Company's common stock for an aggregate cost of \$300,000. Under the agreement, the stockholder has a one-time right to cancel the sale of the common stock and warrants not yet paid for by the Company upon written notice to the Company. Upon receipt of such notice, the Company is not obligated to purchase the remaining common stock and warrants. The agreement provides that the Company is to pay \$2.00 for each common share and warrant to purchase two common shares of the Company's common stock. The shares and warrants are to be repurchased in approximately equal installments over nine months, beginning in March and ending in November 2003. From March 24, 2003 through June 30, 2003, the Company repurchased 66,670 of the Company's common shares and warrants to purchased 133,340 common shares, paying \$133,340. The shares and warrants repurchased by the Company are held in escrow, pending the completion of the repurchase in November 2003, or its earlier cancellation, at which time they will be cancelled.

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NOTE 3. COMMON STOCK (CONTINUED)

On March 4, 2003, the Company completed the repurchase from a stockholder of 12,939 shares of the Company's common stock together with warrants to purchase 25,878 shares of the Company's common stock at an aggregate cost of \$25,878. The shares and warrants were originally sold in the Company's private placement that was completed in December 2001, and the shares and warrants repurchased by the Company were cancelled.

On March 13, 2003, the Company completed the public sale of 4,500,000 shares of the Company's common stock at a price of \$1.35 per share (see note 10), whereby the Company received \$5,917,086 in net proceeds.

On April 18, 2003, the Company granted options to two directors to purchase 25,000 shares of the Company's common stock at an exercise price of \$.45 per share. The options vest at the rate of 5,000 per year beginning on the first anniversary date of the grant and continuing annually thereafter and expire three years from their respective date of vesting. On June 2, 2003, the Company granted options to an officer 100,000 shares of the Company's common stock at an exercise price of \$.77 per share. The options vest at the rate of 25,000 per year beginning on the date of the grant and continuing annually thereafter and expire five years from their respective date of vesting. The following is a summary of total outstanding options and stock warrants at June 30, 2003:

Range of Exercise Prices	Number	Options and Warrants Outstanding Weighted- Average Exercise Price	Weighted-Average Remaining Contractual Life	Options Number
Options				
\$0.45-\$2.75	1,070,000	\$2.11	4.10 years	793,
Warrants				
\$2.00	801,997	\$2.00	0.62 years	801,
Options and warrants	1,871,997	\$2.06	2.61 years	1,595,

The warrants reflected in the above table exclude the warrants to purchase 133,340 shares of the Company's common stock that are held in escrow, pending cancellation, as of June 30, 2003.

NOTE 4. INVENTORIES

Inventories consisted of the following components as of June 30, 2003 and December 31, 2002:

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	June 30, 2003	December 31, 2002
	-----	-----
Raw materials	\$ 917,567	\$ 427,752
Work-in-process	1,797,276	1,021,496
Finished goods	3,662,229	3,665,953
Obsolescence allowance	(51,285)	(34,964)
	-----	-----
Total	\$ 6,325,787	\$ 5,080,237
	=====	=====

NOTE 5. CHANGES TO BORROWING ARRANGEMENTS

The Company has a \$1.5 million revolving line of credit, as amended, with an outstanding balance of \$0 as of June 30, 2003, bearing interest at the one-month Libor interest rate in effect two business days before the first day of the month plus 2.50%. As of June 30, 2003, the interest rate was the one-month Libor rate of 1.12% plus 2.50% (3.62%). This revolving line of credit has a June 30, 2004 expiration date.

Under the line of credit, the Company is permitted to borrow up to 75% of eligible accounts receivable and 50% of eligible inventories (up to a maximum of \$750,000 and not to exceed 50% of the total outstanding). The Company has granted the Bank a security interest in all of the Company's assets as security for the repayment of the line of credit. The Bank agreement contains various covenants which the Company is required to maintain, and as of June 30, 2003, the Company was in compliance with these covenant requirements.

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NOTE 6. EMPLOYMENT AGREEMENTS:

On June 27, 2003, the Vice President of Marketing and Sales retired, and the Employment Agreement between he and the Company was cancelled. On July 14, 2003, subsequent to the balance sheet date, the Employment Agreement between the Company and its Executive Vice President and Chief Financial Officer was amended, making the officer responsible for marketing and sales while remaining chief financial officer for an indefinite period, reducing the annual salary from \$151,200 to \$78,000, eliminating the five percent (5%) annual increase and supplemental life insurance retirement plan and providing for a one-half of one percent (0.5%) commission on certain of the net sales of the Company.

NOTE 7. SIGNIFICANT CUSTOMERS

In the three and six month periods ended June 30, 2003, two customers accounted for 28% and 17% and 31% and 18%, respectively, of net sales. The Company does not have a written or oral contract with these customers. All sales are made through purchase orders. Accounts receivable from these customers at June 30, 2003, were \$562,605 and \$295,194, respectively.

NOTE 8. SIGNIFICANT SUPPLIERS

In the three and six month periods ended June 30, 2003, the Company purchased 28% and 39% of its raw materials, components and supplies from one supplier in connection with sales to its largest customers. At June 30, 2003, the accounts payable to this supplier was \$787,919.

NOTE 9. FINANCIAL REPORTING FOR BUSINESS SEGMENTS:

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The Company believes that its operations are in a single industry segment involving the development and manufacture of products used in electronic printing. All of the Company's assets are domestic. The sales to unaffiliated customers by geographic region from continuing operations for the six-month periods ended June 30 are as follows:

	2003	2002
	-----	-----
Sales to Unaffiliated Customers:		
United States	\$ 6,347,513	\$10,005,967
Europe/Eastern Europe	2,348,586	3,222,774
Mexico	1,252,150	1,349,501
Asia/Southeast Asia	360,481	547,502
South America	250,310	254,930
Others	128,954	250,949
	-----	-----
Total	\$10,687,994	\$15,631,623
	=====	=====

NOTE 10. RELATED PARTY TRANSACTIONS:

The Company purchased from an affiliate for the three and six month periods ended June 30, 2003, \$671,666 and 1,124,190, respectively, of all-in-one imaging, toner and drum cartridges and injection molded cartridges and accessories for copiers and laser printers. Accounts payable to the affiliate at June 30, 2003, was \$407,802.

On January 23, 2003 the Company's registration statement on Form SB-2 offering of up to 7 million shares of its common stock was declared effective by the Securities and Exchange Commission. On March 6, 2003, the Company received subscription gross proceeds from an affiliate of \$6,075,000 for the public sale of 4,500,000 shares of its common stock from an affiliate, and on March 13, 2003, the Company accepted the investment in accordance with the offering procedures.

On March 14, 2002, the Company borrowed \$500,000 from its President on an unsecured basis. The interest rate on the loan was 12% per annum, matured on March 14, 2003 and was evidenced in writing. On September 2, 2002, the Company entered into a modification agreement with its President to change the terms of the note, extending the term to March 1, 2005, providing for a \$100,000 principal payment, decreasing the interest rate to 6% per annum, providing for interest only payments through February 28, 2003, and providing for 24 monthly payments of principal and interest beginning on April 1, 2003, in the amount of \$17,735.67. The Company borrowed the \$500,000 amount to meet a supplier commitment for product. From January 1 through June 30, 2003, interest accrued and paid on the note was \$10,543 and as of June 30, 2003, the outstanding principal balance was \$150,000.

NOTE 10. RELATED PARTY TRANSACTIONS (CONTINUED):

On August 21, 2002, the Company borrowed \$100,000 from a director on an

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unsecured basis. The loan bears interest at the rate of 6% per annum, matures on March 1, 2005 and is evidenced in writing. The Company borrowed this amount in order to repay \$100,000 borrowed from director Sueling Wang on March 14, 2002. The note is interest only through February 28, 2003, and then is fully amortizing over 24 months with principal and interest payments payable monthly beginning April 1, 2003 in the amount of \$4,434. From January 1 through June 30, 2003, the interest accrued and paid on the note was \$2,874, and as of June 30, 2003, the outstanding principal balance was \$84,169.

On August 21 and September 2, 2002, the Company borrowed \$200,000 and \$300,000, respectively, from another director on an unsecured basis. The loan bears interest at the rate of 6% per annum, matures on March 1, 2005 and is evidenced in writing. The Company borrowed this amount in order to make a principal payment due on our industrial development bond in the approximate amount of \$255,000, for the acquisition of capital equipment in the approximate amount of \$125,000 and for general corporate purposes. The note is interest only through February 28, 2003, and then is fully amortizing over 24 months with principal and interest payments payable monthly beginning April 1, 2003 in the amount of \$22,169.60. From January 1 through June 30, 2003, interest accrued and paid on the note was \$14,370, and as of June 30, 2003, the outstanding principal balance was \$420,843.

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ITEM 2.

MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION

The following discussions should be read in conjunction with our condensed financial statements and the related notes thereto.

BACKGROUND

On June 28, 2000, Color Imaging, formerly known as Advatex Associates, Inc. merged with Logical Imaging Solutions, Inc. and Color Image, Inc. and Logical Imaging Solutions and Color Image became wholly-owned subsidiaries of Advatex Associates. The financial information contained in this report is in conformity with the purchase method of accounting. On December 31, 2000, Color Image was merged with and into Color Imaging. On September 30, 2002, we divested Logical Imaging Solutions in exchange for 1.7 million shares of our common stock and warrants to purchase up to 15% of the common stock of Digital Color Print or Logical Imaging Solutions. As a result of our disposing of Logical Imaging Solutions, Inc. we no longer offer printing systems to commercial printers nor the support services and consumables related thereto. As a further result of Color Imaging's divestiture of Logical Imaging Solutions, our investments in the furthering of Logical Imaging Solutions' technologies and carrying its operations have ceased. Significantly, since the merger on June 28, 2000, Color Imaging had invested approximately \$2.35 million in the operations of Logical Imaging Solutions and the development of its technologies. The disposal of Logical Imaging Solutions eliminates the capital needed to support those operations.

COLOR IMAGING, INC.

Color Imaging, Inc. has developed and manufactured products used in electronic printing and copying. We formulate and produce black text and specialty toners, including color and magnetic character recognition toners for numerous laser printers. Our toners permit the printing of a wide range of user-selected colors

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and also the full process color printing of cyan, yellow, magenta and black. Magnetic character recognition toners enable the printing of magnetic characters that are required for the high-speed processing of checks and other financial documents. We also supply other consumable products used in electronic printing, and photocopying, including toner cartridges, cartridge components, photoreceptors, imaging drums and parts.

Color Imaging, Inc. has continually expanded its product line and manufacturing capabilities. This expansion has led to the creation of black text, color, magnetic character recognition and specialty toner formulations, including aftermarket toners and imaging products for printers and facsimile machines manufactured by Brother(TM), Canon(TM), Delphax(TM), Hewlett Packard(TM), IBM(TM), Lexmark(TM), Sharp(TM), Xerox(TM), Minolta(TM), Mita(TM), Panafax(TM), Pentax(TM), Pitney Bowes(TM), Epson(TM), Fuji-Xerox(TM), Toshiba(TM), Kyocera(TM), Okidata(TM), Panasonic(TM), and printing systems developed by Logical Imaging Solutions, Inc. Color Imaging, Inc. also manufactures and or markets toners for use in Ricoh, Sharp(TM), Xerox(TM), Canon(TM), Lanier(TM), Toshiba(TM), Savin(TM) and Gestetner(TM) copiers. We also offer product enhancements, including imaging supplies that enable standard laser printers to print magnetic character recognition data. We market branded products directly to OEMs and our aftermarket products worldwide to distributors and remanufacturers of laser printer toner cartridges and to dealers and distributors of copier products. During the second quarter of 2003 we commenced the sale of all-in-one imaging, toner and drum cartridges for use in Xerox(TM) and Canon(TM) personal copiers and a Hewlett Packard(TM) laser printer. In addition to selling these all-in-one products to the abovementioned customers, we are selling them to a multi-state retail chain store and are offering them to catalog companies.

Our strategy for growing revenue and operating profit is to expand, including through strategic acquisition(s), our printer and copier products business. The key elements of our strategy are (1) increasing vertical integration by supplying complete toner and cartridge devices, (2) capitalizing on our research and development expertise of producing specialty, color and digital copier and or multifunctional device toners, (3) exploiting the efficiencies associated with the investment made in manufacturing facilities, (4) expanding our sources for products from strategic suppliers that we can add value to or resell that complement our product lines and (5) expanding into new geographic markets, and broadening our sales channels, including selling certain products directly to retailers.

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RECENT DEVELOPMENTS

During the second quarter of 2003 we commenced the sale of all-in-one imaging, toner and drum cartridges for use two personal copiers and a laser printer. During the third quarter 2003 we will further expand our product offerings for copiers, including adding toners and parts for several Minolta(TM) and Konica(TM) copiers and introducing additional digital toners for Ricoh(TM), Canon(TM) and Toshiba copiers(TM).

During the third quarter 2003, we will open a sales office in southern California to increase our customer base on the west coast, and we are considering the addition of a warehouse for finished products to improve delivery to existing and prospective west coast customers. Additionally, during July 2003 we announced the closeout of most of our laser parts stock, discontinuing the sale of approximately 80% of all laser parts previously offered by the Company, and we are in the process of discontinuing laser printer

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products for older machines that currently comprise more than 50% of all our laser printer toner products.

OVERVIEW

Net sales are primarily generated from the sale of our black text, color and magnetic character recognition toners, and we believe net sales of all-in-one imaging, toner and drum cartridges will become a significant portion of our total sale in the next few years. Net sales decreased to \$10.7 million for the six months ended June 30, 2003, compared to \$15.6 million for the six months ended June 30, 2002. This 32% decrease in net sales resulted primarily from the decrease in sales to our two largest customers. In the six months ended June 30, 2003, our two largest customers, distributors of imaging supplies for whom we private label, accounted for approximately 31% and 18%, respectively, of net sales, with the latter being an OEM. Sales to these customers consist primarily of analog copier products, and as a result are expected to decline over time. Further, both of these customers either have, or will, manufacture themselves, or with another, certain products that we formerly supplied to them. For the year ended December 31, 2003, we expect the sales to our largest customer to be less than one-half of their 2002 sales of approximately \$13.2 million, and sales to our second largest customer are expected to be approximately 60% of the 2002 sales of \$5.5 million. As a result, our sales will be less concentrated with our largest customers, sales overall during 2003 will be less than those of 2002, and we expect our gross profit margins to improve. Our inventory for product discontinued by our largest customers has either been sold or is being sold to other customers. Net sales made outside of the United States decreased to \$4.3 million, or 41% of total sales for the six months ended June 30, 2003, compared to \$5.6 million, or 36% for the six months ended June 30, 2002. This 23% decrease in international sales resulted primarily from the decrease in sales to our two largest customers. The revenue decrease for the six months ended June 30, 2003 compared to the same period in 2002 for finished products and bulk toners and parts for use in copiers and laser printers from 2002 to 2003 was 28% and 40%, respectively, reflecting our decreased sales to our two largest customers and our continuing transition to the sale of more finished products and less bulk toner.

All sales are made through purchase orders. Revenue is recognized from the sale of products when the goods are shipped to the customer. Consistent with the purchase orders and forecasts provided to us by our major customers, we provide our major suppliers with purchase orders three months in advance and an additional rolling forecast for two months. We communicate regularly and meet at least twice annually with our major customers and suppliers to assess developments in the industry and changes in the business expected from our customers to maintain an efficient supply chain. In April 2001, we changed our purchasing arrangement with our largest supplier to FOB origination from FOB destination, and we adjusted our pricing to reflect the change to costs.

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The following table reflects the consolidated new orders, net of cancellations, revenues and backlog as of the beginning and end of the three and six months ended June 30, 2003, as well as for Color Imaging's two general product lines.

Backlog
at start

Backlog
at end

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	of Period -----	New Orders -----	Net Revenue -----	of Period -----
(IN THOUSANDS OF DOLLARS)				
Three Months June 30, 2003:				
Copier Products	\$ 2,109	\$ 2,633	\$ 3,040	\$ 1,702
Printer Products	457	2,368	2,018	807
	-----	-----	-----	-----
Total	2,566	5,001	5,058	2,509
	=====	=====	=====	=====

(IN THOUSANDS OF DOLLARS)				
Six Months June 30, 2003:				
Copier Products	\$ 2,718	\$ 5,586	\$ 6,602	\$ 1,702
Printer Products	473	4,419	4,085	807
	-----	-----	-----	-----
Total	3,191	10,005	10,687	2,509
	=====	=====	=====	=====

CRITICAL ACCOUNTING ESTIMATES

"Management's Discussion and Analysis of Financial Condition and Results of Operations" discusses our financial statements that have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires us to make estimates and assumptions that affect the reported amount of assets and liabilities at the date of the financial statements, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period.

On an on-going basis, we evaluate our estimates and judgments, including those related to revenue recognition, valuation allowances for inventory and accounts receivable, warranty and impairment of long-lived assets. We base our estimates and judgments on historical experience and on various other factors that we believe to be reasonable under the circumstances. The result of these estimates and judgments form the basis for making conclusions about the carrying value of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. Our significant estimates and assumptions are reviewed and any required adjustments are recorded on a quarterly basis.

A critical accounting policy is one that is both important to the portrayal of Color Imaging's financial condition and results and requires management's most difficult, subjective or complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain. Management believes the following critical accounting policies affect its more significant judgments and estimates in the preparation of its financial statements.

VALUATION ALLOWANCE FOR ACCOUNTS RECEIVABLE. We maintain allowances for doubtful accounts for estimated losses resulting from the inability of our customers to make required payments. These allowances are based on historical experience, credit evaluations and specific customer collection issues we have identified. Since our accounts receivable are often concentrated in a relatively few number of customers, a significant change in the liquidity or financial position of any one of these customers could have a material adverse impact on the collectibility of our accounts receivable and our future operating results.

INVENTORY VALUATION. Our inventories are recorded at the lower of standard cost or the current estimated market value. As with any manufacturer or wholesaler,

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economic conditions, cyclical customer demand, product introductions or pricing changes of our competitors and changes in purchasing or distribution can affect the carrying value of inventory. Demand for our products has fluctuated significantly and may do so in the future, which could result in an increase in the cost of inventory or an increase in excess inventory quantities on hand. As circumstances warrant, we record lower of cost or market inventory adjustments. In some instances these adjustments can have a material effect on the financial results of an annual or interim period. In order to determine such adjustments, we evaluate the age, inventory turns, estimated fair value and, in the case of toner products, whether or not they can be reformulated and manufactured into other products, and record any adjustment if estimated fair value is below cost.

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Through periodic review of each of our inventory categories and by offering markdown or closeout pricing, we regularly take steps to sell off slower moving inventory to eliminate or lessen the effect of any lower of cost or market adjustment. If assumptions about future demand or actual market conditions are less favorable than those projected by management, write-downs of inventory could be required, and there can be no assurance that future developments will not necessitate further write-downs.

VALUATION OF LONG-LIVED ASSETS. We periodically evaluate whether events and circumstances have occurred which may affect the estimated useful life or the recoverability of the remaining balance of our long-lived assets, such as our investment in our toner manufacturing equipment. We have approximately \$7.8 million invested in such equipment and plant improvements, with a carrying value of \$6.5 million, that have estimated lives of up to twenty years. Should competing technologies or offshore competitors cause our manufacturing technology to be non-competitive, or should other events or circumstances indicate that the carrying amount of these assets would not be recoverable, the estimated life of these assets may need to be shortened and their carrying value could be materially affected. If the sum of the undiscounted expected cash flows from an asset to be held and used in operations is less than the carrying value of the asset, an impairment loss is recognized.

WARRANTY. We provide a limited warranty, generally ninety (90) days, to all purchasers of our products. Accordingly, we do not make a provision for the estimated cost of providing warranty coverage, and instead we expense these costs as they are incurred. On occasion, we have been required and may be required in the future to provide additional warranty coverage to ensure that our products are ultimately accepted or to maintain customer goodwill. While our warranty costs have historically not been significant, we cannot guarantee that we will continue to experience a similar level of predictability with regard to warranty costs as we have in the past. In addition, the introduction of more expensive finished products, technological changes or previously unknown defects in raw materials or components may result in more extensive and frequent warranty claims than anticipated, which could have a material adverse impact on our operating results for the periods in which such additional costs materialize.

RESULTS OF OPERATIONS

Color Imaging's net sales were \$5.1 million and \$10.7 million for the three and six months ended June 30, 2003, a decrease of approximately 37% and 32% from the three and six months ended June 30, 2002. The net sales by product category were as follows:

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(Dollars in thousands)	2003	%	% Increase (Decrease)	2002	%
-----	-----	-----	-----	-----	-----
Three Months					

Product Category:					
Cartridges and bottles					
Copier finished products	\$ 2,842	56%	(37%)	\$ 4,478	56%
Printer finished products	857	17%	(5%)	898	11%
-----	-----	-----	-----	-----	-----
	3,699	73%	(31%)	5,376	67%
Bulk toner and parts	1,360	27%	(48%)	2,594	33%
-----	-----	-----	-----	-----	-----
Total net revenue	\$ 5,059	100%	(37%)	\$ 7,970	100%
=====	=====	=====	=====	=====	=====
Six Months					

Product Category:					
Cartridges and bottles					
Copier finished products	\$ 5,893	55%	(33%)	\$ 8,818	56%
Printer finished products	1,823	17%	(3%)	1,876	12%
-----	-----	-----	-----	-----	-----
	7,716	72%	(28%)	10,694	68%
Bulk toner and parts	2,972	28%	(40%)	4,938	32%
-----	-----	-----	-----	-----	-----
Total net revenue	\$10,688	100%	(32%)	\$15,632	100%
=====	=====	=====	=====	=====	=====

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The following table sets forth certain information derived from the Company's unaudited interim statements of operations:

	THREE MONTHS ENDED JUNE 30,	
	2003	2002
	-----	-----
	(PERCENTAGE OF NET SALES)	
Net sales	100	100
Cost of sales	70	86
Gross profit	30	14
Administrative expenses	8	4
Research and development	6	3
Sales and marketing	8	4
Operating income	8	2
Interest expense	1	1

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Depreciation and amortization	6	2
Income before taxes	8	1
Provision for income taxes	3	1
Income from continuing operations	5	1
Loss from discontinued operations, net of income taxes	0	-1
Net income	5	0

THREE MONTHS ENDED JUNE 30, 2003 COMPARED TO THREE MONTHS ENDED JUNE 30, 2002

NET SALES. Our net sales decreased by \$2.9 million, or 37%, to \$5.1 million for the three months ended June 30, 2003, from \$8.0 million for the three months ended June 30, 2002. Net sales made in the United States were \$3.0 million, a decrease of \$2.0 million, or 39%, from \$5.0 million made in the comparable period in 2002. Net sales made outside of the United States decreased by \$0.9 million, or 31%, for the quarter compared to the same quarter of 2002. The decrease in net sales for the quarter compared to that of a year ago made both inside and outside of the United States was primarily the result of decreased sales to our two largest customers. Of the \$5.1 million in net sales, \$3.7 million, or 73%, were attributable to our copier and printer finished products, compared to 67% for the comparable period in 2002, while the net sales of bulk toner and parts declined from 33% of net sales for the three months ended June 30, 2002 compared to 27% for the comparable period in 2003. Net sales to our two largest customers decreased as a percentage of our total sales to 45% for the three months ended June 30, 2003, from 52% for the comparable period in 2002.

COST OF GOODS SOLD. Cost of goods sold decreased by \$3.3 million, or 49%, to \$3.5 million from \$6.9 million for the three months ended June 30, 2003 for the comparable period in 2002, primarily as the result of the decrease in net sales and secondarily from reduced costs of manufacturing. Cost of goods sold as a percentage of net sales decreased by 16 percentage points from 86% for the three months ended June 30, 2002 to 70% for the three months ended June 30, 2003, primarily as the result of reduced sales derived from certain very low margin products previously sold to our largest customer that have been discontinued and a larger percentage of sales being derived from sales of products with higher gross margins.

GROSS PROFIT. As a result of the above factors, gross profit increased to \$1.5 million in the three months ended June 30, 2003 from \$1.1 million in the three months ended June 30, 2002, or by \$447,000, while net sales for the same period decreased by \$2.9 million. Gross profit as a percentage of net sales increased by 16 percentage points from 14% to 30% for the three months ended June 30, 2003, as compared to the corresponding period of the prior year. The increase in the percentage of gross profit resulted primarily from reduced sales derived from certain very low margin products previously sold to our largest customer that have been discontinued and a larger percentage of sales being derived from sales of products with higher gross margins.

OPERATING EXPENSES. Operating expenses decreased \$235,000, or 26%, to \$1,140,000 in the three months ended June 30, 2003 from \$905,000 in the three months ended June 30, 2002. General and administrative, selling and R&D expenses increased, as a percentage of net sales, to 22% in the three months ended June 30, 2003 from 11% in the three months ended June 30, 2002 as the result of the decrease in net sales for the quarter and higher expenditures in all categories. General

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and administrative expenses increased approximately 29%, or \$97,000 to \$426,000 for the three months ended June 30, 2003 from the comparable period in 2002, largely resulting from increased professional fees in connection with complying with the change in SEC reporting requirements from Regulation SB to S-K and increased state franchise taxes. Selling expenses increased by \$52,000, or 15%, in the three months ended June 30, 2003 compared to the three months ended June 30, 2002. Selling expenses increased primarily as a result of increased advertising and manufacturer's representative expenses. Research and development expenses increased by \$86,000, or 36%, to \$325,000 in the three months ended June 30, 2003, primarily as the result of increased expenditures for testing and qualifying toner products and the recruitment and relocation of our vice president of technology. We expect to continue to increase research and development expenditures in an effort to develop and bring to market more new products before our competition, while also reformulating certain product formulas to manufacture a greater percentage of our products on our more efficient production equipment.

OPERATING INCOME. As a result of the above factors, primarily the 41% increase in gross profit, operating income increased by \$212,000, or 113%, to a profit of \$399,000 in the three months ended June 30, 2003 from \$187,000 in the three months ended June 30, 2002.

INTEREST AND FINANCE EXPENSE. Interest expense decreased by \$57,000 in the three months ended June 30, 2003 from the three months ended June 30, 2002. The decrease was primarily the result of reduced interest bearing debt levels.

OTHER INCOME. Other income increased by \$38,000 from income of \$22,000 to income of \$60,000 in the three months ended June 30, 2003 from the three months ended June 30, 2002, primarily as the result of Euro exchange gains.

INCOME TAXES. As the result of our profit from continuing operations in the three months ended June 30, 2003, we recorded an income tax provision of \$171,000 for the period, while the income tax provisions were \$46,000 for the three months ended June 30, 2002.

SIX MONTHS ENDED JUNE 30, 2003 COMPARED TO SIX MONTHS ENDED JUNE 30, 2002

NET SALES. Our net sales decreased by \$4.9 million, or 32%, to \$10.7 million for the six months ended June 30, 2003, from \$15.6 million for the six months ended June 30, 2002. Net sales made in the United States were \$6.3 million, a decrease of \$3.7 million, or 37%, from \$10.0 million made in the comparable period in 2002. Net sales made outside of the United States decreased by \$1.4 million, or 25%, to \$4.3 million for the six months ended June 30, 2003 compared to the same six months of 2002. The decrease in net sales for the six months ended June 30, 2003, compared to that of a year ago resulted primarily from reduced sales to our two largest customers. Of the \$10.7 million in net sales, \$7.7 million, or 72%, were attributable to our finished products for use in copiers and printers, while \$3.0 million, or 28%, were derived from the sale of bulk toners and parts. Of the \$15.6 million in net sales for the six months ended June 30, 2002, 68% were derived from finished products for use in copiers and printers, while \$4.9 million, or 32%, were derived from the sale of bulk toners and parts. The revenue decrease for the six months ended June 30, 2003 compared to the same period in 2002 for finished products and bulk toners and parts for use in copiers and laser printers from 2002 to 2003 was 28% and 40%, respectively, reflecting the decreased sales from our two largest customers and our continuing transition to the sale of more finished products.

COST OF GOODS SOLD. Cost of goods sold decreased by \$5.5 million, or 41%, to \$7.8 million from \$13.3 million for the six months ended June 30, 2003 from the

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comparable period in 2002. Cost of goods sold as a percentage of net sales decreased by 12 percentage points from 85% for the six months ended June 30, 2002 to 73% for the six months ended June 30, 2003, primarily as the result of reduced sales derived from certain very low margin products previously sold to our largest customer that have been discontinued and larger percentage of sales being derived from sales of products with higher gross margins.

GROSS PROFIT. As a result of the above factors, gross profit increased to \$2.9 million in the six months ended June 30, 2003 from \$2.3 million in the six months ended June 30, 2002, or \$544,000 and 23%, while net sales for the same period decreased by \$4.9 million, or 32%. Gross profit as a percentage of net sales increased by 12 percentage points from 15% to 27% for the six months ended June 30, 2003, as compared to the corresponding period of the prior year. The increase in the percentage of gross profit resulted primarily from reduced sales derived from certain very low margin products previously sold to our largest customer that have been discontinued and a larger percentage of sales being derived from sales of products with higher gross margins.

OPERATING EXPENSES. Operating expenses increased \$488,000 or 28% to \$2.2 million in the six months ended June 30, 2003 from \$1.8 million in the six months ended June 30, 2002. As a percentage of net sales general and administrative, selling and R&D expenses, was 21% and 11%, respectively, for the six months ended June

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30, 2003 and 2002. The increase in operating expenses as a percentage of net sales was largely the result of the decrease in net sales for the six months ended June 30, 2003, and increased expenses in each operating expense category in support of the changes being made in the operations of the Company. General and administrative expenses increased approximately 28%, or \$198,000 to \$893,000 for the six months ended June 30, 2003 from the comparable period in 2002, largely resulting from increased professional expenses for compliance with changing from SEC regulation SB to S-K reporting and the repurchase of securities issued in our private placement completed in 2001, the provision of \$78,000 for a bonus program and payroll for a staff addition. Selling expenses increased by \$144,000, or 24%, in the six months ended June 30, 2003 compared to the six months ended June 30, 2002. Selling expenses increased primarily as the result of increased advertising, product samples given to customers and payroll for sales and customer support staff increases. Research and development expenses increased by \$146,000, or 32%, to \$597,000 in the six months ended June 30, 2003, primarily as the result of increased expenditures for product testing and qualification and expenses in connection with the hiring and relocation of our vice president of technology. We expect to continue to increase research and development expenditures in an effort to develop and bring to market more new, rigorously tested, products before our competition, while also reformulating certain product formulas to manufacture a greater percentage of our products on our more efficient production equipment.

OPERATING INCOME. As a result of the above factors, operating income increased by \$156,000, to a profit of \$613,000 in the six months ended June 30, 2003 from \$557,000 in the six months ended June 30, 2002.

INTEREST AND FINANCE EXPENSE. Interest expense decreased by \$56,000 in the six months ended June 30, 2003 from the six months ended June 30, 2002. The decrease was primarily the result of reduced interest bearing debt levels.

OTHER INCOME. Other income increased by \$80,000 from income of \$29,000 to income of \$109,000 in the six months ended June 30, 2003 from the six months ended June 30, 2002.

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INCOME TAXES. As the result of our increased profit from continuing operations for the six months ended June 30, 2003, our provision for taxes increased from \$161,000 in the six months ended June 30, 2002 to \$245,000 for the period ended June 30, 2003.

RESULTS OF DISCONTINUED OPERATIONS

The following table sets forth, for the periods indicated, selected information relating to the discontinued operations of Logical Imaging Solutions that has been derived from our unaudited consolidated statements of operations.

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2003	2002	2003	2002
(Loss) from discontinued operations:				
Before income taxes	\$ --	\$ (154,824)	\$ --	\$ (309,648)
Income tax provision (benefit)	--	(62,000)	--	(12,000)
Net (loss) from discontinued operations	\$ --	\$ (92,824)	\$ --	\$ (321,648)

LIQUIDITY AND CAPITAL RESOURCES

At June 30, 2003, and December 31, 2002, our working capital and current ratio was approximately \$7.2 million and \$1.8 million and 2.74 to 1 and 1.29 to 1, respectively. The substantial increase in our working capital and current ratio at June 30, 2003, compared to December 31, 2002, was primarily due to the net proceeds we received for the public sale on Form SB-2 of our common stock.

Cash flows used by continuing operating activities were \$470,700 in the six months ended June 30, 2003 compared to \$27,693 provided by continuing operations in the six months ended June 30, 2002. The cash flows used by continuing operating activities in the six months ended June 30, 2003 increased primarily due to the reduction made to accounts payable and increased inventory net of a reduction in accounts receivable.

Cash flows used in investing activities were \$146,819 in the six months ended June 30, 2003, compared to \$331,311 in the six months ended June 30, 2002. The decrease in cash used in investing activities in the six months ended June 30, 2003, was entirely attributable to decreased capital expenditures in connection with our most recent factory expansion.

We have a \$1.5 million revolving line of credit, as amended, with our bank with an outstanding balance as of June 30, 2003 of \$0, bearing interest at the one-month Libor interest rate in effect two business days before the first day of the month plus 2.50%. As of June 30, 2003, the interest rate was the one-month Libor rate of 1.12% plus 2.50% (3.62%). This revolving line of credit has a June 30, 2004 expiration date. Under the line of credit, we are permitted to borrow up to 75% of eligible accounts receivable and 50 percent of eligible

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inventories (up to a maximum of \$750,000 and not to exceed 50 percent of the total outstanding). We have granted the bank a security interest in all of our assets as security for the repayment of the line of credit. The bank agreement contains various covenants which we are required to maintain, and as of June 30, 2003, we were in compliance with these covenant requirements.

Cash flows provided by financing activities, after the repayment of \$1,678,213 of debt and \$1,022,470 reduction to the line of credit for the six months ended June 30, 2003 were \$3,040,196, resulting primarily from the \$5,917,000 in net proceeds received for the public sale of our common stock to an affiliate. Cash flows provided by financing activities for the same six month period ended June 30, 2003, were \$286,381, derived primarily from \$500,000 in proceeds from related party borrowings.

On April 18, 2003, Color Imaging established a stock repurchase program under which Color Imaging's common stock, with an aggregate market value up to the lesser of \$1 million or 1 million shares, may be acquired in the open market or through private or other transactions. In July 2003, Color Imaging has repurchased some 9,500 shares our common stock which have yet to be certificated and cancelled.

We believe that existing cash balances, cash generated by operating activities, and funds available under our credit facility will be sufficient to finance our operating and investing activities for at least the next 12 months, which will include expenditures of approximately \$500,000 for manufacturing and research and development equipment, approximately \$100,000 for a significant upgrade to our accounting and manufacturing computer system and the repurchase of our stock under the stock repurchase program of up to the lesser of \$1,000,000 or 1,000,000 shares of our common stock.

FACTORS THAT MAY AFFECT FUTURE RESULTS AND INFORMATION CONCERNING FORWARD-LOOKING STATEMENTS

RISK FACTORS

RISKS RELATED TO OUR BUSINESS:

OUR BUSINESS DEPENDS ON A LIMITED NUMBER OF CUSTOMERS.

For the six months ended June 30, 2003, two customers accounted for approximately 48% of our net sales. We do not have contracts with these customers and all of the sales to them are made through purchase orders. While our products typically go through the customer's required qualification process, which we believe gives us an advantage over other suppliers, this does not guarantee that the customer will continue to purchase from us. The loss of either of these customers, including through an acquisition, other business combination or the loss by them of business from their customers could have a substantial and adverse effect on our business. We have in the past, and may in the future, lose one or more major customers or substantial portions of our business with one or more of our major customers. If we do not sell products or services to customers in the quantities anticipated, or if a major customer reduces or terminates its relationship with us, market perception of our products and technology, growth prospects, and financial condition and results of operation could be harmed.

OUR RELIANCE ON SALES TO A FEW MAJOR CUSTOMERS AND GRANTING CREDIT TO THOSE CUSTOMERS PLACES US AT FINANCIAL RISK.

As of June 30, 2003, receivables from two customers comprised 44% of accounts receivable. A concentration of our receivables from a small number of customers places us at risk should these receivables become uncollectable. If any one or more of our major customers is unable to pay us it could adversely affect our

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results of operations and financial condition. Color Imaging attempts to manage this credit risk by performing credit checks, requiring significant partial payments prior to shipment where appropriate, and actively monitoring collections.

APPROXIMATELY 39% OF OUR BUSINESS DEPENDS ON A SUPPLIER APPROVED BY ONE OF OUR CUSTOMERS.

Some of our products incorporate technologies that are available from a particular supplier that has been approved by one of our customers. Approximately 31% of our sales for the six months ended June 30, 2003, were derived from products limited to a specific supplier. For the six months ended June 30, 2003, we purchased 39% of our supplies from that same supplier. We do

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not have a written agreement with this or any other supplier. We rely on purchase orders. Should we be unable to obtain the necessary materials from this supplier, product shipments could be prevented or delayed, which could result in a loss of sales. If we are unable to fulfill existing orders or accept new orders because of a shortage of materials, we may lose revenues and risk losing customers.

IF OUR CRITICAL SUPPLIERS FAIL TO DELIVER SUFFICIENT QUANTITIES OF MATERIALS OR PRODUCTS IN A TIMELY AND COST-EFFECTIVE MANNER IT COULD NEGATIVELY AFFECT OUR BUSINESS.

We use a wide range of materials in the production of our products, and we use numerous suppliers to supply materials and certain finished products. We generally do not have guaranteed supply arrangements with our suppliers. Because of the variability and uniqueness of customers' orders, we do not maintain an extensive inventory of materials for manufacturing or resale. Key suppliers include providers of special resins, toners and our injection molder affiliate that provides plastic bottles, cartridges and related components designed to avoid the intellectual property rights of others.

Although we make reasonable efforts to ensure that raw materials, toners and certain finished products are available from multiple suppliers, this is not always possible; accordingly, some of these materials are being procured from a single supplier or a limited group of suppliers. Many of these suppliers are outside the United States, resulting in longer lead-times for many important materials, which could cause delays in meeting shipments to our customers. We have sought, and will continue to seek, to minimize the risk of production interruptions and shortages of key materials and products by:

- o selecting and qualifying alternative suppliers for key materials and products;
- o monitoring the financial stability of key suppliers; and
- o maintaining appropriate inventories of key materials and products.

There can be no assurance that results of operations will not be materially and adversely affected if, in the future, we do not receive in a timely and cost-effective manner a sufficient quantity of raw materials, toners or finished products to meet our production or customer delivery requirements.

OUR SUCCESS IS DEPENDENT ON OUR ABILITY TO UTILIZE AVAILABLE MANUFACTURING CAPACITY.

From 1999 through 2000, we expanded our manufacturing capacity by acquiring new manufacturing equipment and moving to a larger location. We intend to continue

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to expand capacity by placing in service additional manufacturing equipment during 2003. To fully utilize these new additions to the factory, new formulations for toner have to be developed specifically for manufacture on this new equipment or orders for larger quantities of existing toners must be obtained. While we have been successful in developing formulas for new equipment in the past and increasing sales of many of our existing toner products, our continued success will be dependent on our ability to develop additional formulations or increase our sales from existing formulations and manufacture the toners with the new equipment to achieve a reduction in production costs. We cannot assure you that we will be successful in developing all of the formulations needed in the future or that we will be able to manufacture toner at a lower production cost on a regular basis or that such products will achieve market acceptance. If we are not successful in increasing the sales of our manufactured products, or if our existing sales from manufactured products decline, our business will be materially and adversely affected.

OUR SUCCESS IS DEPENDENT ON OUR ABILITY TO SUCCESSFULLY DEVELOP, OR ACQUIRE FROM THIRD PARTIES, INTELLECTUAL PROPERTY OR PRODUCTS THAT WE CAN COMMERCIALIZE AND THAT ACHIEVE MARKET ACCEPTANCE.

Our success depends in part on our ability to develop proprietary toner formulas and manufacturing processes, obtain copyrights and trademarks, maintain trade secret protection and operate without infringing the proprietary rights of others. Future claims of intellectual property infringement could prevent us from obtaining technology of others and could otherwise adversely affect our operating results, cash flows, financial position or business, as could expenses incurred enforcing intellectual property rights against others or defending against claims that our products infringe the intellectual property rights of others.

Success in the aftermarket imaging industry depends, in part, on developing consumable products that are compatible with the printers, photocopiers and facsimile machines made by the OEMs, and that have a selling price less than that of like consumable supplies offered by the OEM. For example, if the OEMs introduce chemical toners with better imaging characteristics and higher yields, microprocessor chips that communicate between the toner cartridge and the device, or introduce products using patented or other proprietary technologies, then the aftermarket industry has to respond with ongoing development programs to offer compatible products that emulate the OEMs' without infringing upon the OEM's intellectual property.

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Technical innovations are inherently complex and require long development cycles and appropriate professional staffing. Our future business success depends on our ability, and that of critical suppliers, to develop and introduce new products that successfully address the changing technologies of the OEMs, meet the customer's needs and win market acceptance in a timely and cost-effective manner. If we do not develop and introduce products compatible with the OEM's technologies in a timely manner in response to changing market conditions or customer requirements, our business could be seriously harmed.

The challenges we face in implementing our business model include establishing market acceptance of existing products and successfully developing or acquiring new product lines that achieve market acceptance. We must successfully commercialize the products that are currently being developed, such as our color and magnetic character recognition toner for printers and black text and color toners for new digital copiers and continue to acquire from third parties parts, materials and finished product that can be integrated into finished products or

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sold as our products. While we have successfully developed toners in the past and are in the late stages of developing and testing several new toners, we have not commercialized many of the toners that are under development. While we have in the past acquired from third parties materials and products that we have been successful in selling, there can be no assurance that parts, materials or products for new products will be available or will achieve market acceptance. If we fail to successfully commercialize products we develop or acquire from third parties, or if these products fail to achieve market acceptance, our financial condition and results of operation would be seriously harmed.

OUR BUSINESS MIGHT BE ADVERSELY AFFECTED BY OUR DEPENDENCE ON FOREIGN BUSINESS.

We sell a significant amount of product to customers outside of the United States. International sales accounted for 41%, 37%, 24% and 10% of net sales for the six months ended June 30, 2003, and in the years ended December 31, 2002, 2001 and 2000, respectively. We expect that shipments to international customers will continue to account for a material portion of net sales. During the six months ended June 30, 2003, our sales were made to customers outside the United States as follows:

- o Europe/Eastern Europe - 22%
- o Mexico - 12%
- o Asia/Southeast Asia - 3%
- o Other - 4%

Most of our products sold internationally, including those sold to our larger international customers, are on open account, giving rise to the added costs of collection in the event of non-payment. Further, should a product shipped overseas be defective, Color Imaging would experience higher costs in connection with a product recall or return and replacement.

Most of our products are priced in U.S. dollars, but because we began selling products in Europe denominated in Euros during 2001, fluctuations in the Euro could also cause our products there to become less affordable or less competitive or we may sell some products at a loss to otherwise maintain profitable business from a customer. We recorded a gain of \$75,865 for the six months ended June 30, 2003. We recorded a gain of \$2,858 and a charge of \$1,877 during the years ended December 31, 2002 and 2001, respectively, as a result of foreign currency transactions.

While our business has not been materially affected in the past by foreign business or currency fluctuations, because of our significant dependence on international revenues, our operating results could be negatively affected by a continued or additional decline in the economies of any of the countries or regions in which we do business. Periodic local or international economic downturns, trade balance issues, changes to duties, tariffs or environmental regulations, political instability and fluctuations in interest and currency exchange rates could negatively affect our business and results of operations.

We cannot assure you that these factors will not have a material adverse effect on our international sales and would, as a result, adversely impact our results of operation and financial condition.

OUR RESULTS OF OPERATIONS MAY BE MATERIALLY HARMED IF WE ARE UNABLE TO RECOUP OUR INVESTMENT IN RESEARCH AND DEVELOPMENT.

The rapid change in technology in our industry requires that we continue to make investments in research and development in order to not only develop technologies that function like the OEMs' and do not infringe on the OEMs' intellectual property rights, but we must also enhance the performance and functionality of our products and to keep pace with competitive products and satisfy customer demands for improved performance, features, functionality and

costs. There can be no assurance that revenues from future products or product enhancements will be sufficient to recover the development costs associated with such products or enhancements or that we will be able to secure the financial resources necessary to fund future development. Research and development costs typically are incurred before we confirm the technical feasibility and commercial viability of a product, and not all development activities result in commercially viable products. In addition, we cannot ensure that these products or enhancements will receive market acceptance or that we will be able to sell these products at prices that are favorable to us. Our business could be seriously harmed if we are unable to sell our products at favorable prices or if our products are not accepted by the market in which we operate.

OUR INTELLECTUAL PROPERTY PROTECTION IS LIMITED.

We do not rely on patents to protect our proprietary rights. We do rely on a combination of laws such as trade secrets and contractual restrictions such as confidentiality agreements to protect proprietary rights. Despite any precautions we have taken:

- o laws and contractual restrictions might not be sufficient to prevent misappropriation of our technology or deter others from developing similar technologies; and
- o policing unauthorized use of our products is difficult, expensive and time-consuming and we might not be able to determine the extent of this unauthorized use.

Therefore, there can be no assurance that we can meaningfully protect our rights in such unpatented proprietary technology or that others will not independently develop substantially equivalent proprietary products or processes or otherwise gain access to the proprietary technology. Reverse engineering, unauthorized copying or other misappropriation of our proprietary technology could enable third parties to benefit from our technology without paying us which could significantly harm our business.

WE DEPEND ON THE EFFORTS AND ABILITIES OF CERTAIN SENIOR MANAGEMENT AND OTHER KEY PERSONNEL TO CONTINUE OUR OPERATIONS AND GENERATE REVENUES.

Our success depends to a significant extent on the continued services of senior management and other key personnel. While we do have employment, non-compete and confidentiality agreements with executive officers and certain other key individuals, employment agreements may be terminated by either party upon giving the required notice. The loss of the services of any of our executive officers or other key employees could harm our business. Our success also depends on our ability to attract, retain and motivate highly skilled employees. Competition for qualified employees in the industries in which we operate is intense. If we fail to hire and retain a sufficient number of qualified employees, our business will be adversely affected.

WE HAVE A SINGLE MANUFACTURING FACILITY AND WE MAY LOSE REVENUE AND BE UNABLE TO MAINTAIN OUR CLIENT RELATIONSHIPS IF WE LOSE OUR PRODUCTION CAPACITY.

We manufacture all of the products we sell in our existing facility in Norcross, Georgia. If our existing production facility becomes incapable of manufacturing products for any reason, we may be unable to meet production requirements, we may lose revenue and we may not be able to maintain our relationships with our customers. Without our existing production facility, we would have no other means of manufacturing products until we were able to restore the manufacturing

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capability at our facility or develop an alternative manufacturing facility. Although we carry business interruption insurance to cover lost revenue and profits in an amount we consider adequate, this insurance does not cover all possible situations. In addition, our business interruption insurance would not compensate us for the loss of opportunity and potential adverse impact on relations with our existing customers resulting from our inability to produce products for them.

OUR ACQUISITION STRATEGY MAY PROVE UNSUCCESSFUL.

We intend to pursue acquisitions of businesses or technologies that management believes complement or expand the existing business. Acquisitions of this type involve a number of risks, including the possibility that the operations of any businesses that are acquired will be unprofitable or that management attention will be diverted from the day-to-day operation of the existing business. An unsuccessful acquisition could reduce profit margins or otherwise harm our financial condition, by, for example, impairing liquidity and causing non-compliance with lending institution's financial covenants. In addition, any acquisition could result in a dilutive issuance of equity securities, the incurrence of debt or the loss of key employees. Certain benefits of any acquisition may depend on the taking of one-time or recurring accounting charges that may be material. We cannot predict whether any acquisition undertaken by us will be successfully completed or, if one or more acquisitions are completed, whether the acquired assets will generate sufficient revenue to offset the associated costs or other adverse effects.

COMPLIANCE WITH GOVERNMENT REGULATIONS MAY CAUSE US TO INCUR UNFORESEEN EXPENSES.

Our black text, color and magnetic character toner supplies and manufacturing operations are subject to domestic and international laws and regulations,

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particularly relating to environmental matters that impose limitations on the discharge of pollutants into the air, water and soil and establish standards for treatment, storage and disposal of solid and hazardous wastes. In addition, we are subject to regulations for storm water discharge, and as a requirement of the State of Georgia have developed and implemented a Storm Water Pollution Prevention Plan. We are also required to have a permit issued by the State of Georgia in order to conduct various aspects of our business. Compliance with these laws and regulations has not in the past had a material adverse affect on our capital expenditures, earnings or competitive position. There can be no assurance, however, that future changes in environmental laws or regulations, or in the criteria required to obtain or maintain necessary permits, will not have a material adverse affect on our operations.

OUR QUARTERLY OPERATING RESULTS FLUCTUATE AS A RESULT OF MANY FACTORS.

Our quarterly operating results fluctuate due to various factors. Some of these factors include the mix of products sold during the quarter, the availability and costs of raw materials or components, the costs and benefits of new product introductions, and customer order and shipment timing. Because of these factors, our quarterly operating results are difficult to predict and are likely to vary in the future.

RISKS RELATING TO OUR INDUSTRY:

WE OPERATE IN A COMPETITIVE AND RAPIDLY CHANGING MARKETPLACE.

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There is significant competition in the toner and consumable imaging products industry in which we operate. In addition, the market for digital color printers and copiers and related consumable products is subject to rapid change and the OEM technologies are becoming increasingly difficult barriers to market entry. Many competitors, both OEMs and other after market firms, have longer operating histories, larger customer bases, greater brand recognition and significantly greater financial, marketing and other resources than we do. These competitors may be able to devote substantially more resources to developing their business than we can. Our ability to compete depends upon a number of factors, including the success and timing of product introductions, marketing and distribution capabilities and the quality of our customer support. Some of these factors are beyond our control. In addition, competitive pressure to develop new products and technologies could cause our operating expenses to increase substantially.

THE IMAGING SUPPLIES INDUSTRY IS COMPETITIVE AND WE ARE RELATIVELY SMALL IN SIZE AND HAVE FEWER RESOURCES IN COMPARISON WITH MANY OF OUR COMPETITORS.

Our industry includes large original equipment manufacturers of printing and photocopying equipment and the related imaging supplies, as well as other manufacturers and resellers of aftermarket imaging supplies, with substantial resources to support customers worldwide. Our future performance depends, in part, upon our ability to continue to compete successfully worldwide. All of the original equipment manufacturers and many of our other competitors are diversified companies with greater financial resources and more extensive research, engineering, manufacturing, marketing and customer service and support capabilities than we can provide. We face competition from companies whose strategy is to provide a broad array of products, some of which compete with the products that we offer. These competitors may bundle their products in a manner that may discourage customers from purchasing our products. In addition, we face competition from smaller emerging imaging supply companies whose strategy is to provide a portion of the products and services that we offer. Loss of competitive position could impair our prices, customer orders, revenues, gross margins, and market share, any of which would negatively affect our operating results and financial condition. Our failure to compete successfully with these other companies would seriously harm our business. There is risk that larger, better-financed competitors will develop and market more advanced products than those that we currently offer or may be able to offer, or that competitors with greater financial resources may decrease prices thereby putting us under financial pressure. The occurrence of any of these events could have a negative impact on our revenues.

OUR PRODUCTS HAVE SHORT LIFE CYCLES AND ARE SUBJECT TO FREQUENT PRICE REDUCTIONS.

The markets in which we operate are characterized by rapidly evolving and increasingly difficult technologies, frequent new product introductions and significant price competition. Consequently, our products have short life cycles, and we must frequently reduce prices in response to product competition. Our financial condition and results of operations could be adversely affected if we are unable to manufacture new and competitive products in a timely manner. Our success depends on our ability to develop and manufacture technologically advanced products, price them competitively, and achieve cost reductions for existing products. Technological advances require sustained research and development efforts, which may be costly and could cause our operating expenses to increase substantially.

OUR FINANCIAL PERFORMANCE DEPENDS ON OUR ABILITY TO SUCCESSFULLY MANAGE

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INVENTORY LEVELS, WHICH IS AFFECTED BY FACTORS BEYOND OUR CONTROL.

Our financial performance depends in part on our ability to manage inventory levels to support the needs of new and existing customers. Our ability to maintain appropriate inventory levels depends on factors beyond our control, including unforeseen increases or decreases in demand for our products and production and supply difficulties. Demand for our products can be affected by product introductions or price changes by competitors or by us, the life cycle of our products, or delays in the development or manufacturing of our products. Our operating results and ability to increase the market share of our products may be adversely affected if we are unable to address inventory issues on a timely basis.

RISKS RELATING TO OWNING OUR COMMON STOCK:

OUR OFFICERS AND DIRECTORS BENEFICIALLY OWN APPROXIMATELY 42% OF THE OUTSTANDING SHARES OF COMMON STOCK, ALLOWING THESE STOCKHOLDERS TO CONTROL MATTERS REQUIRING APPROVAL OF THE STOCKHOLDERS.

As a result of such ownership by our officers and directors, other investors will have limited control over matters requiring approval by the stockholders, including the election of directors. Such concentrated control may also make it difficult for the stockholders to receive a premium for their shares of our common stock in the event we enter into transactions that require stockholder approval. In addition, certain provisions of Delaware law could have the effect of making it more difficult or more expensive for a third party to acquire, or of discouraging a third party from attempting to acquire control of us.

EXERCISE OF WARRANTS AND OPTIONS WILL DILUTE EXISTING STOCKHOLDERS AND COULD DECREASE THE MARKET PRICE OF OUR COMMON STOCK.

As of July 28, 2003, we had issued and outstanding 12,925,005 shares of common stock and 935,337 outstanding warrants and 970,000 outstanding options to purchase additional shares of common stock, inclusive of 66,670 shares of our common stock and warrants to purchase 133,340 shares of our common stock that have been repurchased pursuant to a repurchase agreement and will be cancelled upon their receipt from escrow. Further, subject to cancellation upon certification, are 9,500 shares that we repurchased in the market pursuant to our stock repurchase program. The existence of the remaining warrants and options may adversely affect the market price of our common stock and the terms under which we obtain additional equity capital.

WE MAY FACE POTENTIAL REGULATORY ACTION OR LIABILITY IN CONNECTION WITH OUR 2001 PRIVATE PLACEMENT.

Our issuance of common stock and warrants in a private placement which was completed in 2001 could subject us to potential adverse consequences, including securities law liability and the voiding of contracts entered into in connection with the private placement. If our activities or the activities of other parties in the 2001 private placement are deemed to be inconsistent with securities laws under Section 29 of the Securities Exchange Act of 1934 or our activities or the activities of other parties are deemed to be inconsistent with the broker dealer registration provisions of Section 15(a) of the Exchange Act:

- o we may be able to void our obligation to pay transaction-related fees in connection with the private placement and we may receive reimbursement for fees already paid;
- o persons with whom we have entered into securities transactions that are subject to these transaction-related fees may have the right to void these transactions; and

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- o we may be subject to regulatory action.

Due to the inherent uncertainties involved with the interpretation of securities laws, we are unable to predict the following: the validity of any potential liability in connection with our private placement, the outcome of any regulatory action or potential liability or the outcome of voiding transactions in connection with the private placement. The defense of any regulatory action or litigation and any adverse outcome could be costly and could have a material adverse effect on our financial position and results of operations and could divert management attention.

OUR COMMON STOCK IS LISTED ON THE OVER-THE-COUNTER (OTC) BULLETIN BOARD, WHICH MAY MAKE IT MORE DIFFICULT FOR STOCKHOLDERS TO SELL THEIR SHARES AND MAY CAUSE THE MARKET PRICE OF OUR COMMON STOCK TO DECREASE.

Because our common stock is listed on the OTC Bulletin Board, the liquidity of our common stock is impaired, not only in the number of shares that are bought and sold, but also through delays in the timing of transactions, and limited coverage by security analysts and the news media, if any, of us. As a result, prices for shares of our common stock may be lower than might otherwise prevail if our common stock was traded on NASDAQ or a national securities exchange, like the American Stock Exchange.

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OUR STOCK PRICE MAY BE VOLATILE AND AN INVESTMENT IN OUR COMMON STOCK COULD SUFFER A DECLINE IN VALUE.

The market price of our common stock may fluctuate significantly in response to a number of factors, some of which are beyond our control. These factors include, but are not limited to:

- o progress of our products through development and marketing;
- o announcements of technological innovations or new products by us or our competitors;
- o government regulatory action affecting our products or competitors' products in both the United States and foreign countries;
- o developments or disputes concerning patent or proprietary rights;
- o actual or anticipated fluctuations in our operating results;
- o the loss of key management or technical personnel;
- o the loss of major customers or suppliers;
- o the outcome of any future litigation;
- o changes in our financial estimates by securities analysts;
- o fluctuations in currency exchange rates;
- o general market conditions for emerging growth and technology companies;
- o broad market fluctuations;

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- o recovery from natural disasters; and
- o economic conditions in the United States or abroad.

OUR CHARTER DOCUMENTS AND DELAWARE LAW MAY HAVE THE EFFECT OF MAKING IT MORE EXPENSIVE OR MORE DIFFICULT FOR A THIRD PARTY TO ACQUIRE, OR TO ACQUIRE CONTROL, OF US.

Our certificate of incorporation makes it possible for our board of directors to issue preferred stock with voting or other rights that could impede the success of any attempt to change control of us. Our certificate of incorporation and bylaws eliminate cumulative voting which may make it more difficult for a minority stockholder to gain a seat on our board of directors and to influence board of directors' decision regarding a takeover. Delaware Law prohibits a publicly held Delaware corporation from engaging in certain business combinations with certain persons, who acquire our securities with the intent of engaging in a business combination, unless the proposed transaction is approved in a prescribed manner. This provision has the effect of discouraging transactions not approved by our board of directors as required by the statute which may discourage third parties from attempting to acquire us or to acquire control of us even if the attempt would result in a premium over market price for the shares of common stock held by our stockholders.

The information referred to above should be considered by investors when reviewing any forward-looking statements contained in this report, in any of our public filings or press releases or in any oral statements made by us or any of our officers or other persons acting on our behalf. The important factors that could affect forward-looking statements are subject to change, and we disclaim any obligation or duty to update or modify these forward-looking statements.

FORWARD-LOOKING STATEMENTS

Statements contained in this report which are not statements of historical fact are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. These forward-looking statements may be identified by the use of forward-looking terms such as "believes," "expects," "may," "will," "should" or "anticipates" or by discussions of strategy that involve risks and uncertainties. From time to time, we have made or may make forward-looking statements, orally or in writing. These forward-looking statements include statements regarding our ability to borrow funds from financial institutions or affiliates, to engage in sales of our securities, our intention to repay certain borrowings from future sales of

our securities or cash flow, the ability to expand capacity by placing in service additional manufacturing equipment during 2003, our expected acquisition of business or technologies, our expectation that shipments to international customers will continue to account for a material portion of net sales, anticipated future revenues, our introduction of new products and our increasing our sales from digital copier, color and magnetic character recognition toner products during 2003, the prospective effects of having discontinued the Logical Imaging Solutions operations, sales, operations, demand, technology, products, business ventures, major customers, major suppliers, retention of key officers, management or employees, competition, capital expenditures, credit arrangements and other statements regarding matters that are not historical facts, involve predictions which are based upon a number of future conditions that ultimately may prove to be inaccurate. Our actual results, performance or achievements could differ materially from the results expressed in, or implied by, these forward-looking statements. Forward-looking statements are made based upon

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management's current expectations and beliefs concerning future developments and their potential effects upon our business. We cannot predict whether future developments affecting us will be those anticipated by management, and there are a number of factors that could adversely affect our future operating results or cause our actual results to differ materially from the estimates or expectations reflected in such forward-looking statements.

ITEM 3. Quantitative and Qualitative Disclosures about Market Risks

Market risk is the risk of loss to future earnings, to fair values or to future cash flows that may result from changes in the price of a financial instrument. The value of a financial instrument may change as a result of changes in interest rates, exchange rates, commodity prices, equity prices and other market changes. Market risk is attributed to all market sensitive financial instruments, including long-term debt.

We do not hold any investments or assets outside of the United States. However, we are exposed to financial market risks, including changes in foreign currency exchange rates and interest rates.

We estimate that about 7% of our transactions are denominated in U.S. dollars, excepting those sales in Euros to a few customer's in Europe, including our second largest customer European operations. Accordingly, beginning in 2001, we are subject to foreign currency risk with respect to future costs or cash flows from our sales in Euros. We have adjusted our prices annually with our customer to reflect the change in the exchange rate and do not expect to be subject to material foreign currency risk, accordingly, with respect to those sales. As a result, to date, we have not entered into any foreign currency forward exchange contracts or other derivative financial instruments to hedge the effects of adverse fluctuations in foreign currency exchange. We incurred a net foreign currency transaction gain of \$75,865 in the six months ended June 30, 2003, and we incurred a net foreign currency transaction gain of \$2,858 and a loss of \$1,877 in the years ended December 31, 2002 and 2001, respectively. Our contract pricing for our products sold in Euros is currently at the rates of 0.96 and 1.00 Euros relative to the U.S. dollar. A 10% change in the value of the Euro relative to the United States dollar would cause approximately an \$8,000 foreign currency translation adjustment in an average month, a type of other comprehensive income (loss), which would be a direct adjustment to stockholders' equity.

Our revolving line of credit bears interest based on interest rates tied to the LIBOR rate, which may fluctuate over time based on economic conditions. As a result, we are subject to market risk for changes in interest rates and could be subjected to increased or decreased interest payments if market rates fluctuate and we are in a borrowing mode. At June 30, 2003, there were no amounts outstanding under the line of credit agreement and, accordingly, a sustained increase in the reference rate of 1% would not cause our annual interest expense to change.

Our investment policy requires investments with high credit quality issuers and or over night repurchase agreements with our bank. Investments we make will principally consist of U.S. government and government agency obligations and investment-grade, interest-bearing corporate debt securities with varying maturity dates of five years or less, or the overnight purchase of securities held in our bank's investment portfolio. Because of the credit criteria of our investment policies, the primary market risk associated with these investments is interest rate risk. We do not use derivative financial instruments to manage interest rate risk or to speculate on future changes in interest rates. We had approximately \$1,750,000 invested in securities, which are available for sale, at June 30, 2003, and we experienced a net asset value loss of \$1,037 as the result of the recent interest rate change.

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Management believes that a reasonable change in raw material prices could have a material impact on future earnings or cash flows, because we generally are not able to offset increases to our costs with higher prices for our products.

ITEM 4. Controls and Procedures

a) On July 24, 2003, our President and principal executive officer and Chief Financial Officer participated in a meeting during which there was an evaluation of our disclosure controls and procedures. Based on such evaluation, they believe such controls and procedures are effective.

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b) Our President and principal executive officer and Chief Financial Officer are involved in ongoing evaluations of internal controls. On July 24, 2003, in anticipation of the filing of this Form 10-Q, they reviewed our internal controls and have determined, based on such review, that, since the date of their review, there have been no significant changes in our internal controls or in other factors that would significantly affect our internal controls subsequent to such evaluation.

PART II

ITEM 1. Legal Proceedings

None.

ITEM 2. Changes in Securities

On January 23, 2003, the Company's registration statement on Form SB-2, registering up to 7 million shares of the Company's common stock, was declared effective (Registration Statement No. 333-76090), and the offering was commenced by the Company's officers and directors. On March 13, 2003, the Company completed the public sale of 4,500,000 shares of the Company's common stock at a price of \$1.35 per share, whereby the Company received \$6,075,000 in gross proceeds from an affiliate, and the Company terminated the offering before the sale of all 7 million of registered shares. From the effective date of the Company's registration statement through March 31, 2003, the Company incurred total expenses for professional fees and printing of \$30,129 in connection with the issuance and distribution of the Company's common stock. The net proceeds received by the Company, after expenses of \$30,129, was \$6,044,871. None of the aforementioned expenses were direct or indirect payments to directors, officers, their associates or persons owning ten (10) percent or more of the common stock of the Company.

Our intended uses of the \$6,075,000 of proceeds received from the public sale of our common stock, and our uses through June 30, 2003, are listed below in descending order of priority:

Purpose:	Amount	Used
-----	-----	-----
Accounts payable and other corporate and offering expenses.	\$1,000,000	\$ 403,684
To retire debt (1).	\$ 350,000	\$ 324,301
To retire debt (2).	\$1,050,000	\$ 956,883
To retire debt (3).	\$ 0	\$ 235,000
To acquire capital assets	\$1,500,000	\$ 30,131

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To repurchase our stock	\$	0	\$	0
For other general corporate purposes				
including working capital.	\$2,175,000		\$	260,000
	-----		-----	
Total:	\$6,075,000		\$2,210,000	

Pending application:

Short-term investments.

Pay down of revolving line of credit.

- (1) On November 30, 2000, we entered into a loan for \$500,000 with a 5-year term, secured by specific manufacturing equipment, maturing November 30, 2004, with General Electric Capital Corporation for the purchase of toner manufacturing equipment. The interest rate is 10.214% and the monthly principal and interest payments are \$10,676.39.
- (2) On June 24, 1999, we entered into a loan for \$1,752,000 with a 7-year term, secured by our business assets, maturing June 24, 2006, with SouthTrust Bank for the refinancing of obligations owing the bank for the acquisition of equipment and that due under a previous working capital line of credit. The interest rate is 7.90% per annum and the monthly principal and interest payments are \$27,205.00.
- (3) On July 24, 1999, as amended, we entered into a borrowing arrangement under a revolving line of credit in the maximum amount of \$2.5 million. During March 2003 we temporarily used \$1,735,000 of our proceeds from our public offering on Form SB-2 to pay down the line of credit to \$0, which at that time had an interest rate of 3.8375%. On June 16, 2003, we renewed and restructured the line of credit with the bank, reducing the maximum availability to \$1.5 million and permanently retiring \$235,000.

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During March 2003, using proceeds from the offering on Form SB-2, the Company retired debt owed to General Electric Capital Corporation and SouthTrust Bank, and to the extent proceeds were not required in the amounts outlined for those purposes, they have been reallocated to be used for general corporate purposes.

During March 2003, pending application of the proceeds from the offering on Form SB-2, the Company paid down its line of credit with the bank by the then outstanding principal balance of \$1,735,000. On June 16, 2003, with the renewal of our line of credit with SouthTrust Bank, we permanently reduced our revolving line of credit to \$1,500,000; and, as a result, we retired \$235,000 of that debt with our bank.

On April 18, 2003, the Company established a stock repurchase program under which the Company may purchase on the open market the lesser of the aggregate value of \$1,000,00 or 1,000,000 shares in compliance with Rule 10b-18, and we have reallocated proceeds for this program. In July 2003, under the repurchase program the Company has repurchased 9,500 shares of our common stock on the open market at an average price of \$.66. Approximately \$994,000 remains available for future common stock repurchases.

Pending application, we have retained the balance of the net proceeds in a

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deposit account with the bank and an investment account with a securities firm related to the bank.

No direct or indirect payments to directors, officers, their associates or persons owing ten (10) percent or more of the Company's common stock were made with proceeds from the Company's offering on Form SB-2

On March 4, 2003, the Company completed the repurchase from a stockholder of 12,939 shares of the Company's common stock together with warrants to purchase 25,878 shares of the Company's common stock at an exercise price of \$2.00 per share for \$25,878. The shares and warrants were originally sold in the Company's private placement that was completed in December 2001, and the shares and warrants repurchased by the Company were cancelled.

On February 27, 2003, the Company entered into an agreement with a stockholder to repurchase 150,000 shares of common stock and warrants to purchase 300,000 shares of the Company's common stock at an exercise price of \$2.00 per share. Under the agreement, the stockholder has a one-time right to cancel the sale of the common stock and warrants not yet paid for by the Company upon written notice to the Company. Upon receipt of such notice, the Company is not obligated to purchase the remaining common stock and warrants. The agreement provides that the Company is to pay \$2.00 for each common share and warrant to purchase two common shares of the Company's common stock. The shares and warrants are to be repurchased in approximately equal installments over nine months, beginning in March and ending in November 2003. From March 24, 2003 through June 30, 2003, the Company repurchased 66,670 of the Company's common shares and warrants to purchased 133,340 common shares, paying \$133,340. The shares and warrants repurchased by the Company are held in escrow, pending the completion of the repurchase in November 2003, or its earlier cancellation, at which time they will be cancelled.

ITEM 3. Defaults upon Senior Securities

None

ITEM 4. Submission of Matters to a Vote of Security Holders

(a) The Registrant held its Annual Meeting of Stockholders on June 16, 2003. The following proposals were adopted by the votes indicated.

(b) Seven directors were elected at the Annual Meeting to serve until the Annual Meeting of Stockholders in 2003. The names of these Directors and votes cast in favor of their election and shares withheld are as follows:

NAME ----	VOTES FOR -----	% FOR -----	VOTES WITHHELD -----
Jui-Hung Wang	10,616,263	82.1	115,541
Sueling Wang, Phd	10,670,546	82.6	61,258
Morris E. Van Asperen	10,616,296	82.1	115,508
Yi Jen Wang	10,616,296	82.1	115,508
Jui-Chi Wang	10,616,296	82.1	115,508
Jui-Kung Wang	10,616,296	82.1	115,508
Richard S. Eiswirth	10,720,546	82.9	11,258

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(c) The proposal to approve the Color Imaging 2003 Stock Incentive Plan was approved by 9,785,701 votes for with 946,103 votes withheld.

(d) The prior grant of options to employees, officers and directors of Color Imaging was ratified by a vote of 9,786,592 for and 945,212 votes withheld.

(e) The selection of Lazar Levine & Felix, LLP as our independent accountants for the year ending December 31, 2003 was ratified by 10,676,386 votes for with 55,418 votes withheld.

ITEM 5. Other Information

None

ITEM 6 -EXHIBITS AND REPORTS ON FORM 8-K

(a) EXHIBITS

Exhibit No. -----	Description -----
2.1	Merger Agreement and Plan of Reorganization dated May 16, 2000, by and between Advatex Associates, Inc., Logical Imaging Solutions Acquisition Corp., Color Imaging Acquisition Corp., Logical Imaging Solutions, Inc., and Color Image, Inc., incorporated by reference to the Registrant's Form 8-K filed on July 17, 2000.
2.2	Amendment No. 1 to the Merger Agreement and Plan of Reorganization dated June 15, 2000, incorporated by reference to the Registrant's Form 8-K filed on July 17, 2000
2.3	Amendment No. 2 to the Merger Agreement and Plan of Reorganization dated June 26, 2000, incorporated by reference to the Registrant's Form 8-K filed on July 17, 2000
2.4(1)	Share Exchange Agreement dated as of September 11, 2002 between Color Imaging, Inc., Logical Imaging Solutions, Inc., Digital Color Print, Inc., and the shareholders of Digital Color Print, Inc., incorporated by reference to Exhibit 2.1 to the Registrant's Form 8-K filed September 26, 2002.
2.5	Amendment No. 1 to Share Exchange Agreement dated as of September 20, 2002 between Color Imaging, Inc., Logical Imaging Solutions, Inc., Digital Color Print, Inc., and the shareholders of Digital Color Print, Inc., incorporated by reference to Exhibit 2.2 to the Registrant's Form 8-K filed September 26, 2002.
3.1	Certificate of Incorporation, incorporated by reference to Exhibit 3.1 to the Registration statement on Form SB-2 filed July 15, 2002.
3.2	Bylaws, incorporated by reference to the Registrant's Form 10-QSB for the quarter ended March 31, 2002.
4.1	Stock Purchase Agreement between the Company and Wall Street Consulting Corp. dated October 30, 2001, incorporated by reference to Exhibit 4.1 to the Registration statement on Form SB-2 filed May 31, 2002.
4.2	Promissory Note of Wall Street Consulting Corp. dated October 30, 2001, incorporated by reference to Exhibit 4.2 to the Registration statement on Form SB-2 filed May 31, 2002.
4.3	Form of Warrant issued to Selling Stockholders, incorporated by reference to Exhibit 4.3 to the Registration statement on Form SB-2 filed November 28, 2001.
4.4	Development Authority of Gwinnett County, Georgia Industrial

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Development Trust Indenture dated June 1, 1999, incorporated by reference to Exhibit 4.27 to the Registration statement on Form SB-2 filed May 31, 2002.

- 4.5 Loan Agreement between the Company, Kings Brothers LLC and the Development Authority of Gwinnett County, Georgia dated June 1, 1999, incorporated by reference to Exhibit 4.28 to the Registration statement on Form SB-2 filed May 31, 2002.
- 4.6 Joint Debtor Agreement dated June 28, 2000 by and among Color Image, Inc., Kings Brothers, LLC, Dr. Sueling Wang, Jui-Chi Wang, Jui-Kung Wang, and Jui-Hung Wang, incorporated by reference to Exhibit 4.28 to the Registration statement on Form SB-2 filed February 11, 2002.

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Exhibit No. -----	Description -----
4.7	First Amendment to Joint Debtor Agreement dated January 1, 2001 by and among Color Imaging, Kings Brothers, LLC, Dr. Sueling Wang, Jui-Chi Wang, Jui-Kung Wang, and Jui-Hung Wang, incorporated by reference to Exhibit 4.29 to the Registration statement on Form SB-2 filed February 11, 2002.
4.8	\$500,000 Promissory Note between Color Imaging and Sueling Wang dated March 14, 2002, incorporated by reference to Exhibit 4.34 to the Registration statement on Form SB-2 filed April 11, 2002.
4.9	\$500,000 Promissory Note between Color Imaging and Jui Hung Wang dated August 21, 2002, incorporated by reference to Exhibit 4.50 to the Registration statement on Form SB-2 filed October 2, 2002.
4.10	\$100,000 Promissory Note between Color Imaging and Jui Chi Wang dated August 21, 2002, incorporated by reference to Exhibit 4.51 to the Registration statement on Form SB-2 filed October 2, 2002.
4.11	First Note Modification Agreement between Sueling Wang and Color Imaging dated August 27, 2002, incorporated by reference to Exhibit 4.52 to the Registration statement on Form SB-2 filed October 2, 2002.
4.12+	Amended and restated \$1,500,000 revolving note between Color Imaging and SouthTrust Bank dated June 16, 2003.
4.13+	Amended and restated loan and security agreement between Color Imaging and SouthTrust Bank dated June 16, 2003.
10.1	Employment Agreement between Color Imaging and Dr. Sueling Wang dated June 28, 2000, incorporated by reference to Exhibit 10.2 to the Registration statement on Form SB-2 filed November 28, 2001.
10.2	Employment Agreement between the Company and Morris E. Van Asperen dated June 28, 2000, incorporated by reference to Exhibit 10.3 to the Registration statement on Form SB-2 filed November 28, 2001.
10.3+	Employment Agreement amendment between the Company and Morris E. Van Asperen dated July 14, 2003.
10.4	Deferred Compensation Agreement Amendment between Charles R. Allison and Color Imaging, Inc., December 27, 2002, incorporated by reference to Exhibit 10.11 to the Registrant's Form 10-K for the year ended December 31, 2002.
10.5+	Amendment to Deferred Compensation Agreement between Color Imaging and Charles R. Allison dated June 27, 2003.
10.6	Lease Agreement between Color Imaging and Kings Brothers LLC dated April 1, 1999, incorporated by reference to Exhibit 10.5 to the Registration statement on Form SB-2 filed November 28, 2001.
10.7	Amendment No. 1 to Lease Agreement between the Company and Kings

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- Brothers LLC dated April 1, 1999, incorporated by reference to Exhibit 10.6 to the Registration statement on Form SB-2 filed November 28, 2001.
- 10.8 Commercial Lease Agreement Amendment between Kings Brothers LLC and Color Imaging, Inc. dated February 5, 2003, incorporated by reference to Exhibit 10.13 to the Registrant's Form 10-K for the year ended December 31, 2002
- 10.9 Form of Warrant between Digital Color Print, Inc. and Color Imaging, Inc., incorporated by reference to Exhibit 10.10 to the Registration statement on Form SB-2 filed November 13, 2002.
- 10.10 Purchase and Sale and Release Agreement between Michael Edson and Color Imaging, Inc. dated February 27, 2003, incorporated by reference to Exhibit 10.14 to the Registrant's Form 10-K for the year ended December 31, 2002
- 10.11 Purchase and Sale and Release Agreement between Stephen Chromik and Color Imaging, Inc. dated February 27, 2003, incorporated by reference to Exhibit 10.15 to the Registrant's Form 10-K for the year ended December 31, 2002
- 10.12 Form of Indemnification Agreement, incorporated by reference to the post effective Amendment No. 1 to Form SB-2 filed April 1, 2003.
- 31+ Certification Pursuant to Section 302 of The Sarbanes-Oxley Act of 2002
- 32+ Certification Pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant to Section 906 of The Sarbanes-Oxley Act of 2002

+ Filed herewith.

(1) Pursuant to Rule 601(b)(2), the schedules and exhibits to this Agreement shall not be filed. A list of the schedules and exhibits is contained on the last page of the Agreement. The Registrant agrees to furnish supplementally a copy of any of the omitted schedules and exhibits to the Securities and Exchange Commission upon request.

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(b) REPORTS ON FORM 8-K

On April 1, 2003, the Company filed a Current Report on Form 8-K disclosing that the Company had not authorized and was not responsible for a press release, or its content, issued that date by Warrior Capital.

On April 22, 2003, the Company filed a Current Report on Form 8-K announcing that the Company's board of directors had approved a stock repurchase program whereby the Company will buy back, at prices to be determined, its common stock in the open market (through a broker or otherwise) from time to time.

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SIGNATURES

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

COLOR IMAGING, INC.

/S/ SUELING WANG

July 28, 2003

Sueling Wang, PhD
President (principal executive officer)

/S/ MORRIS E. VAN ASPEREN

Morris E. Van Asperen
Executive Vice President and
Chief Financial Officer

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