

Edgar Filing: COLOR IMAGING INC - Form SB-2/A

COLOR IMAGING INC  
Form SB-2/A  
July 15, 2002

As filed with the Securities and Exchange Commission on July 15, 2002

REGISTRATION NO. 333-76090

SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549  
AMENDMENT NO. 5 TO  
FORM SB-2  
REGISTRATION STATEMENT UNDER  
THE SECURITIES ACT OF 1933

COLOR IMAGING, INC.

(Name of Small Business Issuer in Its Charter)

|   |   |   |
|---|---|---|
| Delaware  | 3861  | 13-3453420                              |
| (State or Jurisdiction of<br>Incorporation or Organization) | (Primary Standard Industrial<br>Classification Code Number) | (IRS Employer Identification<br>Number) |

4350 Peachtree Industrial Boulevard, Suite 100  
Norcross, Georgia 30071  
(770) 840-1090; Fax (770) 242-3494  
(Address and Telephone Number of Principal Executive Offices)

Sueling Wang, President  
Color Imaging, Inc.  
4350 Peachtree Industrial Boulevard, Suite 100  
Norcross, Georgia 30071  
(770) 840-1090; Fax: (770) 242-3494  
(Name, Address and Telephone Number of Agent for Service)

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Approximate Date of Commencement of Proposed Sale to the Public: As soon as practicable from time to time after the effective date of this registration statement.

If this form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of earlier effective registration statement for the same offering. ☐

If this form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ☐

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If this form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ☐

If delivery of the prospectus is expected to be made pursuant to Rule 434, please check the following box. ☐

If any of the securities being registered on this form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, other than securities offered only in connection with dividend or interest reinvestment plans, check the following box. ☒

### CALCULATION OF REGISTRATION FEE

| Title of Each Class<br>of Securities to be Registered            | Amount to Be<br>Registered | Proposed Maximum<br>Offering Price<br>Per Share (1) | Proposed Maximum<br>Aggregate Offering<br>Price (1) |
|--|----------------------------|---|---|
| -----  | -----                      | -----   | -----   |
| Common Stock, \$.01 par value<br>offered by selling stockholders | 3,959,487                  | \$ 3.10   | \$ 12,274,409.70                                    |
| Common Stock, \$.01 par value<br>offered by the Company          | 7,000,000                  | \$ 3.10   | \$ 21,700,000.00                                    |
|  | -----                      | -----   | -----   |
| Total  | 10,959,487                 |   | \$ 33,974,409.70                                    |

- (1) Estimated solely for purpose of calculating the registration fee in accordance with Rule 457(c) under the Securities Act of 1933. Based on the average of the bid and ask price per share of Common Stock of the registrant as reported on the OTC Bulletin Board on December 24, 2001.
- (2) \$4,010 previously paid. The filing fee has been adjusted in accordance with the Investor and Capital Markets Fee Relief Act signed January 16, 2002.

The registrant hereby amends this registration statement on such date or dates as may be necessary to delay its effective date until the registrant shall file a further amendment which specifically states that this registration statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until this registration statement shall become effective on such date as the Commission acting pursuant to said Section 8(a), may determine.

INFORMATION CONTAINED HEREIN IS SUBJECT TO COMPLETION OR AMENDMENT. A REGISTRATION STATEMENT RELATING TO THESE SECURITIES HAS BEEN FILED WITH THE SECURITIES AND EXCHANGE COMMISSION. THESE SECURITIES MAY NOT BE SOLD NOR MAY OFFERS TO BUY BE ACCEPTED PRIOR TO THE TIME THE REGISTRATION STATEMENT BECOMES EFFECTIVE. THIS PROSPECTUS SHALL NOT CONSTITUTE AN OFFER TO SELL OR THE SOLICITATION OF AN OFFER TO BUY NOR SHALL THERE BE ANY SALE OF THESE SECURITIES

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IN ANY STATE IN WHICH SUCH OFFER, SOLICITATION OR SALE WOULD BE UNLAWFUL PRIOR TO REGISTRATION OR QUALIFICATION UNDER THE SECURITIES LAWS OF ANY SUCH STATE.

PRELIMINARY PROSPECTUS, DATED JULY 15, 2002

UP TO

7,000,000 SHARES

OFFERED BY

COLOR IMAGING, INC.

AND

3,959,487 SHARES OFFERED BY SELLING STOCKHOLDERS

We are offering up to a maximum of 7,000,000 shares of our common stock for sale at \$\_\_\_\_\_ per share, the average of the closing prices of our common stock for the 15 trading days prior to the effective date of this offering. We will require investors to purchase at least 100,000 shares. Funds raised from the sale of our common stock will not go into escrow, trust or any other similar arrangement. Our offering will terminate on December 31, 2003, unless the entire offering has been sold prior to that time or otherwise terminated.

Our selling stockholders are offering to sell up to 3,959,487 shares of common stock, including shares underlying warrants to purchase our common stock. The selling stockholders may sell our common stock on the open market at market prices in ordinary broker transactions or in negotiated transactions, and they may pay broker commissions in connection with such transactions. We will not receive any of the proceeds of sale of such stock, except and unless shares of our common stock underlying warrants held by the selling stockholders are exercised other than by cashless exercise, nor pay any broker commissions in connection with such sales.

Our common stock is quoted on the OTC Bulletin Board under the symbol CIMG. On July 12, 2002, the closing price of our stock was \$1.20 per share.

You should carefully consider each of the risk factors described under "Risk Factors" beginning on page 4 of this prospectus.

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

The date of this prospectus is July \_\_, 2002

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### PROSPECTUS SUMMARY

You should read this summary together with the other information contained in other parts of this prospectus. Because it is a summary, it does not contain all of the information that you should consider before investing in our common stock.

COLOR IMAGING, INC.

#### OVERVIEW

We develop, manufacture and market products used in electronic printing, analog and digital copiers and supply high-speed digital printing systems. These high speed digital printing systems print in real-time directly on offset presses. Offset presses are presses that utilize plates and ink to print on paper and other materials. We conduct our business through two separate operating units, Color Imaging, Inc., and Logical Imaging Solutions, Inc. Color Imaging, Inc. develops, purchases from others and markets electronic printing products, including black text, color, magnetic character recognition and specialty toners, and provides other parts and accessories for laser printers and digital copiers. Logical Imaging Solutions, Inc. designs, manufactures and integrates proprietary software and hardware with components made by third parties into a complete printing system and offers related technical support and supplies. Logical Imaging Solutions, Inc.'s printing system allows commercial printers to digitally process and print data and images that may change from page to page, also known as variable data, at high speeds directly on commercial offset web presses. This capability saves time and money for the printer and customer.

COLOR IMAGING, INC.

Since 1989, Color Imaging, Inc. has developed and manufactured products used in electronic printing. Color Imaging, Inc. formulates and produces black text and specialty toners, including color and magnetic character recognition toners for numerous laser printers. Color Imaging, Inc.'s toners permit the printing of a wide range of user-selected colors and also the full process color printing of cyan, yellow, magenta and black. Magnetic character recognition toners enable the printing of magnetic characters which are required for the high-speed processing of checks and other financial documents. Color also supplies other consumable products used in electronic printing, and photocopying, including toner cartridges, cartridge components, photoreceptors and imaging drums.

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Color Imaging, Inc. has continually expanded its product line and manufacturing capabilities. This expansion has led to the creation of more than 130 different 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 markets toners for use in Ricoh, Sharp(TM), Xerox(TM), Canon(TM), Lanier(TM) and Toshiba(TM) copiers. Color Imaging, Inc. also offers product enhancements, including imaging supplies that enable standard laser printers to print magnetic character recognition data. Color Imaging, Inc. markets branded products directly to OEMs and its aftermarket products worldwide to distributors and remanufacturers of laser printer toner cartridges and to dealers and distributors of copier products.

### LOGICAL IMAGING SOLUTIONS, INC.

Logical Imaging Solutions, Inc. designs, assembles and markets a complete printing system, SOLUTION2000, to commercial printers. When installed directly on an offset printing press, the SOLUTION2000 expands printing capabilities to include the printing of variable data and images, including bar codes, magnetic character recognition data and unlimited alphanumeric sequencing. These functions allow commercial printers to digitally process and print variable data at high speeds where previously they were able to only print fixed images from printing plates or cylinders installed on their offset printing presses. Since its founding in 1993, Logical Imaging Solutions, Inc.'s development efforts have focused on creating a high-speed digital variable data printing system for commercial printing applications that combines software, hardware and consumable products not only for black text for image printing but also in color. Logical Imaging Solutions, Inc. also offers a full line of consumable products, including toners, print cartridges and toner fusing assemblies. Our strategy is to continually build an installed base of printer systems that will generate a recurring demand for these consumable products.

Logical Imaging Solutions, Inc. is developing the DigitalColorPress, a Solution series of printing systems incorporating color printing capabilities. Our first DigitalColorPress has been installed for beta testing at a customer site; however, test printing has been delayed, since, the customer has experienced delays in reconfiguring its press to test our DigitalColorPress with other equipment configurations. The DigitalColorPress can print variable data in color at rates exceeding 250 pages-per-minute. This is in contrast to other products which do not print directly on the press and print at speeds of approximately 85 pages per minute. We believe that this represents an attractive alternative for high-speed offset printing applications because it reduces steps and labor in the print process. We intend to market Logical Imaging Solutions, Inc.'s DigitalColorPress color printing system as an enhancement to existing Solution Series installations and as an upgrade for other printing systems.

### THE OFFERING

#### COLOR IMAGING

This prospectus relates to an offering by us of up to 7,000,000 shares of common stock for sale at \$\_\_\_\_ per share, the average of the closing prices of our common stock for the 15 trading days prior to the effective date of this offering. We will require investors to purchase at least 100,000 shares. We will sell our common stock on a best-efforts basis and our offering will terminate on

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December 31, 2002, unless the entire offering has been sold prior to that time or otherwise terminated. There will be no escrow account. We will immediately use all of the proceeds received from the sale of the shares.

### SELLING STOCKHOLDERS

This prospectus also relates to the resale of up to 3,959,487 shares of our common stock, including shares underlying warrants to purchase our common stock, by several of our stockholders. The selling stockholders are not required to sell our common stock and sales of our common stock are entirely at the discretion of the selling stockholders. The selling stockholders may sell such stock either on the open market at market prices in ordinary broker transactions or in negotiated transactions, and they may pay broker commissions in connection with such transactions. The selling stockholders may offer their shares at a price that is lower than the price we offer our shares. We will not receive any of the proceeds of sale of our common stock by the selling stockholders. In the event a selling stockholder exercises warrants to purchase our common stock, we will receive proceeds from the exercise of the warrant; provided that, the selling stockholder exercises the warrant by other than cashless exercise. We will not receive any proceeds from the sale of our stock by selling stockholders who sell our common stock received upon the exercise of warrants. In addition, the exercise of the selling stockholders' warrants are not registered in this offering, and the amounts we receive upon exercise of such warrants are not proceeds of this offering. We will not pay any broker commissions in connection with sale of our common stock by selling stockholders.

Our common stock is quoted on the OTC Bulletin Board under the symbol CIMG. On July 12, 2002, the closing price for our common stock was \$1.20 per share. We will pay the costs of registering the offer and sale of the securities offered hereby with the Securities and Exchange Commission and any required state securities agencies.

|   |  |
|---|--|
| Shares Offered by Color Imaging, Inc.....                   | 7,000,000  |
| Offering Price Per Share.....                               | \$_____ per share, the average closing prices of our common stock for the 15 trading days prior to the effective date of this offering |
| Common Stock Offered by Selling Stockholders (1).....       | 3,959,487  |
| OTC Bulletin Board Symbol.....                              | CIMG   |
| Common Stock Outstanding Before the Offering.....           | 10,099,880   |
| Common Stock to be Outstanding After the Offering (2).....  | 17,099,880   |
| Use of Proceeds from Shares Offered by Color Imaging (3)... | \$8,750,000  |

- 
- (1) Includes shares of common stock underlying warrants already held by the selling stockholders.
  - (2) Excludes shares of common stock underlying warrants already held by the selling stockholders.
  - (3) Assumes our offering price will be equivalent to our recent market price of \$1.25.

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To the extent proceeds are not required in the amount(s) outlined for the purposes described hereafter, such proceeds will be used for general corporate purposes. Our intended uses of the proceeds are listed below in descending order of priority:

|  |              |
|--|--------------|
| For accounts payable and other corporate and offering expenses:..... | \$ 1,000,000 |
| To retire debt:.....   | 375,000      |
| To acquire capital assets:.....                                      | 1,500,000    |
| For other general corporate purposes including working capital.....  | \$5,875,000  |

Our executive offices are located at: 4350 Peachtree Industrial Boulevard, Suite 100, Norcross, Georgia 30071 and our telephone number is: (770) 840-1090.

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### RISK FACTORS

Investing in our common stock involves a significant degree of risk. You should carefully consider the following risk factors and all the other information contained in this prospectus before investing in our common stock. If any of the following possible adverse events actually occur, our business, financial condition and results of operations could suffer, in which case the trading price of our common stock may decline.

#### FACTORS THAT MAY AFFECT FUTURE RESULTS AND INFORMATION CONCERNING 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, the ability to expand capacity by placing in service additional manufacturing equipment during 2002, the ability to commercialize our electron beam imaging technologies and products, 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, sales, operations, demand, technology, products, business ventures, major customers, major suppliers, retention of key officers, management or employees, competition, capital expenditures, credit arrangements, the reorganization and/or recapitalization of Logical Imaging Solutions, our ability to increase our toner manufacturing capacity following completion of testing, 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 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

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cause our actual results to differ materially from the estimates or expectations reflected in such forward-looking statements, including without limitation, those discussed in the sections titled "Color Imaging" and "Management's Discussion and Analysis" and the factors set forth below:

### RISKS RELATED TO OUR BUSINESS:

We anticipate that we will need to raise additional capital or obtain funding to finance certain of our planned operating activities over the next twelve months.

Our failure to raise additional capital in the approximate amount of \$500,000 may significantly limit our ability to finance certain planned operating activities over the next twelve months that we believe will generate additional revenues and reduce manufacturing costs. Specifically, we will need to borrow or raise additional funds to meet the additional planned \$500,000 of vendor commitments for product. We may not be able to obtain additional financing at commercially reasonable rates, or at all. Our failure to obtain additional funds would significantly limit or eliminate our ability to conduct the foregoing activities or we may have to curtail or eliminate other activities. We anticipate that we will seek additional funding through the public or private sales of our securities and/or through commercial or private financing arrangements, including borrowing from affiliates. Adequate funds may not be available when needed or on terms acceptable to us, or at all. In the event that we are not able to obtain additional funding on a timely basis, we may be required to limit any proposed operations, research and development or expansion.

Approximately 40% 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 40% of our sales for the three months ended March 31, 2002 were derived from products limited to a specific supplier. For the three months ended March 31, 2002, we purchased 49% of our raw materials, components and supplies from that same supplier. We do 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.

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Our business depends on a limited number of customers.

In the three months ended March 31, 2002, two customers accounted for approximately 68% 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 any of these customers, including through an acquisition or other business combination 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. If we do not sell products or services to customers in the quantities anticipated, or if a major customer 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 success is dependent on our ability to successfully develop, or acquire from



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third parties, products that we can commercialize and that achieve market acceptance.

The challenges we face in implementing our business model include establishing market acceptance of existing products and services 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 DigitalColorPress, color and magnetic character recognition toner for new digital copiers and printers and continue to acquire from third parties parts, materials and finished product that can be integrated into finished products or 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 and installing our first DigitalColorPress employing electron beam imaging technologies, we have not commercialized many of the toners that are under development or fully commercialized the manufacturing of the DigitalColorPress. 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 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 to expand capacity by placing in service additional manufacturing equipment during 2002. 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 declines, our business will be materially and adversely affected.

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.

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Our success depends on our ability to develop or acquire intellectual property rights.

Our success depends in part on our ability to develop proprietary toner formulas and manufacturing processes, obtain patents, copyrights and trademarks, maintain trade secret protection and operate without infringing the proprietary rights of others. Current or 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.

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Our intellectual property protection is limited.

While we have two patents and we are preparing an application for a third, on the whole 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.

Acts of domestic terrorism and war have impacted general economic conditions and may impact the industry and our ability to operate profitably.

On September 11, 2001, acts of terrorism occurred in New York City and Washington, D.C. On October 7, 2001, the United States launched military attacks on Afghanistan. As a result of those terrorist acts and acts of war, there has been a disruption in general economic activity. The demand for printing products and services may decline as layoffs in the transportation and other industries affect the economy as a whole. There may be other consequences resulting from those acts of terrorism, and any others which may occur in the future, including civil disturbance, war, riot, epidemics, public demonstration, explosion, freight embargoes, governmental action, governmental delay, restraint or inaction, quarantine restrictions, unavailability of capital, equipment, personnel, which we may not be able to anticipate. These terrorist acts and acts of war may continue to cause a slowing of the economy, and in turn, reduce the demand of printing products and services, which would harm our ability to make a profit. We are unable to predict the long-term impact, if any, of these incidents or of any acts of war or terrorism in the United States or worldwide on the U.S. economy, on us or on the price of our common stock.

We depend on the efforts and abilities of certain officers and directors to continue our operations and generate revenues.

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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.

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, 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.

We sell a significant portion of our products internationally, which exposes us to currency fluctuations and collection and product recall risks.

We sell a significant amount of product to customers outside of the United States. International sales accounted for 34% of net sales in the three months ended March 31, 2002 and 9% in the three months ended March 31, 2001. We expect that shipments to international customers will continue to account for a material portion of net sales. Most products are priced in U.S. dollars, but because we do sell products in Europe denominated in Euros, fluctuations in the

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

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.

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### RISKS RELATING TO OUR INDUSTRY:

We operate in a competitive and rapidly changing marketplace.

There is significant competition in the toner, consumable imaging products and color printing systems industries 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.

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 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, directors and principal stockholders own approximately 58% of the outstanding shares of common stock, allowing these stockholders to control matters requiring approval of the stockholders.

As a result of such ownership our officers, directors and principal stockholders, 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

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attempting to acquire control of us.

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Exercise of warrants and options will dilute existing stockholders and could decrease the market price of our common stock.

As of July 10, 2002, we had issued and outstanding 10,099,880 shares of common stock and outstanding warrants and options to purchase 2,416,312 additional shares of common stock. 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.

Our ability to raise additional capital through the sale of our securities may be harmed by competing resales of our common stock by our stockholders.

The price of our common stock could fall if stockholders sell substantial amounts of our common stock. Such sales could make it more difficult for us to sell securities at the time and price we deem appropriate. To the extent stockholders, including the selling stockholders, offer and sell their shares of common stock to investors for less than the price offered by us, our attempt to sell our securities may be adversely affected as a result of the concurrent offering by selling stockholders. Investors may negotiate prices lower than the price we are offering our shares of common stock with selling stockholders. Furthermore, potential investors may not be interested in purchasing shares of our common stock on any terms if stockholders sell substantial amounts of our common stock.

Effectiveness of our registration statement on Form SB-2 may result in the dilution of existing stockholders and could decrease the market price of our common stock.

Once our registration statement is declared effective, selling stockholders will be able to sell up to approximately 4 million shares of our common stock and we will be able to sell the equivalent of up to 7 million shares of our common stock. The sale of common stock covered by the registration statement by us or selling stockholders will dilute existing stockholders and may adversely affect the market price of our common stock.

Our common stock is listed on the Over-The-Counter 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 Over-The-Counter (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.

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:

- o progress of our products through development and marketing;
- o announcements of technological innovations or new products by us or

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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;

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- o fluctuations in currency exchange rates;
- o general market conditions for emerging growth and technology companies;
- o broad market fluctuations;
- 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.

### USE OF PROCEEDS

We estimate that the net proceeds from the sale of 7,000,000 shares offered by us will be \$8,450,000, assuming a purchase price of \$1.25 per share for the average of the 15 trading days prior to the effective date of this offering, and

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after deducting the approximate offering expenses of \$300,000.

The selling stockholders will receive all of the proceeds from selling their shares. We will not receive any sales proceeds. Some of the shares to be sold are already owned by the selling stockholders, and the remainder are issuable to them upon exercise of warrants. See "Selling Stockholders." We will only receive proceeds upon the exercise of these warrants, to the extent they were exercised other than cashless. The total amount we will receive if all of the warrants held by the selling stockholders were exercised is approximately \$1,922,514 (assuming that such selling stockholders do not utilize a cashless exercise). We have not made any plans for the use of these proceeds other than to add them to working capital.

The table below represents our best estimate of the allocation of the net proceeds, including the priorities for the use of the proceeds in descending order, based upon our current business plan and current economic and industry conditions and is subject to reapportionment among the categories listed below in response to changes in our plans, regulations, industry conditions and future revenue and expenditures. The amount and timing of expenditures will vary depending on a number of factors, including changes in our contemplated operations or business plan and changes in economic or industry conditions.

|  |             |
|--|-------------|
| Accounts payable and corporate expenses, including expenses of the offering                              | \$1,000,000 |
| To retire debt(1)  | 375,000     |
| Acquisition of production equipment for dedicated color toner manufacturing and research and development | 1,500,000   |
| Other general corporate purposes, including working capital  | 5,875,000   |
|  | -----       |
| Total  | \$8,750,000 |

- (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.

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Pending application of the proceeds of our offering, we intend to temporarily reduce our revolving line of credit with our bank and otherwise invest the net proceeds in certificates of deposit, money market accounts, United States Government obligations or other short-term interest bearing obligations of investment grade.

We believe that the net proceeds of our offering will be sufficient to meet our needs and certain planned operating and investing activities in the next twelve months. See "Risk Factors."

### CAPITALIZATION

The following table sets forth our capitalization as of March 31, 2002, and as adjusted to give effect to the sale by us of all of the shares offered by us at the assumed public offering price of \$1.25 per share for the average of the 15 trading days prior to the effective date of this offering and the sale of all of the shares of common stock, and the receipt of the estimated net proceeds therefrom. The table should be read in conjunction with the financial statements and notes thereto appearing elsewhere in this prospectus.

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|  | ACTUAL        | AS ADJUSTED   |
|--|---------------|---------------|
|  | -----         | -----         |
| Total current liabilities (2)  | \$ 7,962,116  | \$ 5,738,116  |
| Long-term debt: (3)  | 4,728,899     | 4,445,000     |
| Stockholders' equity: common stock par value \$.01,<br>20,000,000 shares authorized; 10,099,175 outstanding;<br>17,099,175 shares outstanding as adjusted (4); | 100,999       | 170,000       |
| Additional paid-in capital (5)   | 9,868,283     | 18,248,000    |
| Accumulated deficit  | (2,102,187)   | (2,102,187)   |
| Total Stockholders' Equity   | 7,867,095     | 16,317,000    |
| Total Liability and Stockholders' Equity   | \$ 20,558,110 | \$ 26,501,000 |

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- (1) Assumes the sale of 7,000,000 shares at \$1.25 per share, less offering expenses of \$300,000. Also excludes the proceeds that may be received as a result of the exercise of warrants, other than cashless, held by the selling stockholders.
  - (2) Assumes \$700,000 is applied to accounts payables and or corporate expenses, the payoff of the current portion of the GE Capital debt in the amount of \$91,704 and the temporary reduction of our revolving line of credit by \$1,431,692.
  - (3) Assumes the payoff of the balance of the GE Capital debt in the amount of \$283,296.
  - (4) The \$70,000 increase in our common stock at the par value \$.01 per share.
  - (5) Paid-in capital is increased by the \$8,750,000, less \$70,000 of common stock par value and the \$300,000 of estimated expenses of the offering.

## COLOR IMAGING, INC.

### OVERVIEW

Color Imaging, Inc., formerly known as Advatex Associates, Inc., was incorporated in Delaware in 1987. On May 16, 2000, Advatex, Logical Acquisition Corp., Color Acquisition Corp., Logical Imaging Solutions, Inc. and Color Image, Inc. entered into a Merger Agreement and Plan of Reorganization pursuant to which Logical Acquisition Corp. merged with and into Logical Imaging Solutions and Color Acquisition Corp. merged with and into Color Image. Pursuant to the Merger Agreement, shareholders of Logical Imaging Solutions and Color Image exchanged their shares for shares of common stock of Advatex. Logical Imaging Solutions shareholders converted their shares into shares of common stock of Advatex at the ratio of 1.84843 shares of common stock of Advatex for each one share of Logical Imaging Solutions. Color Image shareholders converted their shares into shares of common stock of Advatex at the ratio of 15 shares of common stock of Advatex for each one share of Color Image. Following the conversion of shares by Logical Imaging Solutions and Color Image shareholders, shareholders of Logical Imaging Solutions and Color Image owned approximately 85% of the outstanding shares of common stock of Advatex and shareholders of Advatex before the merger owned approximately 15% and Logical Imaging Solutions and Color Image became wholly-owned subsidiaries of Advatex. The purpose of the merger was to combine Color Image's toner and consumable expertise and



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manufacturing plant with Logical Imaging Solutions' advanced printing system capabilities to offer a wider product range and ensure product supply for Logical Imaging Solutions' Solution Series printing systems. Management also anticipated that the merger with a company that was subject to the Securities Exchange Act of 1934 would also permit the reorganized business to offer shares to other acquisition candidates, in lieu of cash.

On July 7, 2000, pursuant to a vote of our stockholders, we changed our name to Color Imaging, Inc. On December 31, 2000, Color Image, Inc. was merged with and into Color Imaging, Inc.

We develop, manufacture and market products used in electronic printing, analog and digital copiers and high-speed digital printing. These high-speed digital printing systems print in real-time directly on offset presses. Offset presses are presses that utilize plates and ink to print on paper and other materials. We conduct our business through two separate operating units, Color Imaging and Logical Imaging Solutions. Color Imaging develops, purchases from others and markets electronic printing products, including black text, color, magnetic character recognition and specialty toners, and provides other parts and accessories for laser printers and analog and digital copiers. Logical Imaging Solutions designs, manufactures and integrates its proprietary software and hardware with components made by third parties into a complete printing system and offers technical support and supplies in connection therewith. Logical Imaging Solutions' printing system allows commercial printers to digitally process and print data and images that may change from page to page, also known as variable data, at high speeds directly on commercial offset web presses. This capability saves time and money for both the printer and its customer.

### COLOR IMAGING

Since 1989, Color Imaging has developed, manufactured and marketed products used in electronic printing and photocopying. Color Imaging formulates and produces black text and specialty toners, including color and magnetic character recognition toners for numerous laser printers and a number of facsimile machines and photocopiers. Color Imaging's toners permit the printing of a wide range of user-selected colors 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. Color Imaging also supplies other consumable products used in electronic printing and photocopying, including toner cartridges, cartridge components, photoreceptors and imaging drums.

Color Imaging has continually expanded its product line and manufacturing capabilities. This expansion has led to the creation of more than 130 different 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. Color Imaging also manufactures and or markets toners for use in Ricoh, Sharp(TM), Xerox(TM), Canon(TM), Lanier(TM) and Toshiba(TM) copiers. Color Imaging also offers product enhancements, including imaging supplies that enable standard laser printers to print magnetic character recognition data. Color Imaging markets branded products directly to OEMs and its aftermarket products worldwide to distributors and remanufacturers of laser printer toner cartridges and to dealers and distributors of copier products.

### LOGICAL IMAGING SOLUTIONS

Logical Imaging Solutions designs, assembles and markets a complete printing system, SOLUTION2000, to commercial printers. When installed directly on an

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offset printing press, the SOLUTION2000 expands printing capabilities to include

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the printing of variable data and images, including bar codes, magnetic character recognition and unlimited alphanumeric sequencing. These functions allow commercial printers to digitally process and print variable data at extremely high speeds where previously they were able to only print fixed images from printing plates or cylinders installed on their offset printing presses. Since its founding in 1993, Logical Imaging Solutions' development efforts have focused on creating a high-speed digital variable data printing system for commercial printing applications that combines software, hardware and consumable products. Logical Imaging Solutions also offers a full line of consumable products, including toners, print cartridges and toner fusing assemblies. Logical Imaging Solutions' strategy is to continually build an installed base of printer systems that will generate a recurring demand for these consumable products.

Logical Imaging Solutions, Inc. is developing the DigitalColorPress, a Solution series of printing systems incorporating color printing capabilities. Our first DigitalColorPress has been installed for beta testing at a customer site; however, test printing has been delayed, since, the customer has experienced delays in reconfiguring its press to test our DigitalColorPress with other equipment configurations. The DigitalColorPress can print variable data in color at rates exceeding 250 pages-per-minute. This is in contrast to other products that do not print directly on the press and print at speeds of approximately 85 pages per minute. Logical Imaging Solutions believes that this represents an attractive alternative for high-speed offset printing applications because it reduces steps and labor in the print process. Logical Imaging Solutions intends to market the DigitalColorPress color printing system as an enhancement to existing Solution series installations and as an upgrade for other printing systems.

### MARKET OVERVIEW

Color Imaging's market for imaging products is the installed base of electronic printing devices: laser printers and facsimile machines and analog and digital copiers. Color Imaging competes within this market with products supplied by the OEM manufacturers and with other suppliers of aftermarket imaging products. Additional products in this category include enhancement products that extend the capabilities of the OEM's product, such as magnetic character recognition toners that enable the printing of magnetic characters on checks and other financial documents. We market our products worldwide and regionally primarily to distributors of imaging products who sell to dealers and large end-users. To a lesser extent, we sell to remanufacturers and a few dealers directly.

Commercial offset presses print fixed data from printing plates that are prepared prior to the printing process. Every printed item or page in typical offset printing is a replication of the same page many times. Offset printing is further characterized by printing using inks that are transferred from plates to paper with print rates at times exceeding 500 pages per minute. Offset printed products include; newspapers, books, stationary, forms, brochures, advertising materials, etc. Data processing printers, on the other hand, print variable data, primarily black text, which can produce an unlimited stream of variable data or images at typical print rates up to 150 pages per minute.

Logical Imaging Solutions' market for printing systems, upgrades and consumable products is our installed base of Solution series printing systems. Each of these systems represents an opportunity to upgrade to a DigitalColorPress, and represents a continued and expanding revenue source for Logical Imaging

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Solutions' evolving line of consumable products. Logical Imaging Solutions' long-term objective is to provide an upgrade option for offset commercial presses that replaces the conventional printing plate and inking processes with a computer controlled pre-press and on-press production color printing capability.

### STRATEGY

Our operating strategy is to expand, including through strategic acquisition(s), our printer and copier products business, while diversifying our business by pursuing innovative electron beam imaging technologies and products for sale to the commercial press market. We intend to expand our printer and copier business by increasing the capacity of our toner manufacturing facility and utilize it, increasingly, for higher margin specialty, magnetic character recognition, copier and color toners and by expanding our sources for products from strategic suppliers that we can add value to or resell that complement our product lines. The objective of our pursuit of innovative technologies and products applicable to the commercial press market is to become a manufacturer of our own proprietary high-speed digital press, printing in color, and a related line of consumable products to add to sales and operating profitability while reducing our reliance on the printer and copier consumable product markets.

The key elements of our imaging products strategy include expanding toner product offerings, increasing vertical integration by supplying complete toner and cartridge devices, capitalizing on the expertise of producing specialty toners, exploiting the efficiencies associated with the investment made in new manufacturing facilities and expanding into new geographic markets, and broadening our sales channels.

Color Imaging's development of new toner products is focused on providing an aftermarket product for electronic printing devices that achieves a high level of market acceptance. Color Imaging endeavors to offer equivalent toner products with equal or better quality at lower prices than the OEM's toner product.

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Color Imaging is committed to increasing the value added of its toner products to the end user by providing not only the toners but also the toner cartridge or canister that is compatible with the OEM's equipment. Color Imaging believes that by developing toner cartridge and canister devices for specific electronic printing or copying machines, and integrating those devices with compatible toners, the market for Color Imaging's toner products will expand. Color Imaging believes that this approach will also result in increased gross margins.

Color Imaging will continue to emphasize its high margin specialty toner capability, primarily color and magnetic character recognition toners, while providing lower margin black text toners in commodity bulk to a number of large customers. The bulk quantity of black text toners are required to maximize the efficiencies of Color Imaging's manufacturing plant and justify the capital investment in the production equipment. The availability of this complete manufacturing process and equipment allows for the continued expansion of specialty toner products.

Logical Imaging Solutions' strategy is to provide a continuing series of software, hardware and consumable products for the existing base of commercial printers employing electron beam imaging printing on their presses. This product strategy envisions the installation of the DigitalColorPress on those presses to produce digital color printing at press speeds and the elimination of many conventional pre-press functions. Logical Imaging Solutions intends to continue to place production printing equipment in service thereby creating a market for its consumable products.

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### RECENT DEVELOPMENTS

On June 10, 2002, the board of directors, to better focus executive management energies on each of our operating units, reaffirmed Director Michael W. Brennan as Chairman and Chief Executive Officer of our subsidiary Logical Imaging Solutions, Inc., and elected Jui-Hung Wang Chairman of Color Imaging, Inc. Dr. Sueling Wang continues to serve as Vice-Chairman and President of Color Imaging, Inc. Mr. Brennan also resigned from the board of directors of Color Imaging effective September 10, 2002, to dedicate himself to the furthering of the business interests of Logical Imaging Solutions, including its possible reorganization as a standalone company separate and apart from Color Imaging. The board of directors and management realize that the difficulties surrounding the raising of significant equity capital from non-affiliates for Color Imaging in this market environment is such that a restructure of Logical Imaging Solutions is an option that must be considered. We have not, at this time, specifically allocated any of the proceeds of our pending offering filed with the Securities and Exchange Commission on Form SB-2 to the furthering of Logical Imaging Solutions' technology, since we are considering the restructuring of Logical Imaging Solutions in order to avail ourselves of what we believe will be better opportunities to raise the substantial funding necessary to realize the significant potential of its technology, should it prove successful and absent a satisfactory manufacturing or OEM arrangement with another party for its further commercial development.

On May 14, 2002, the U.S. Patent and Trademark Office issued Logical Imaging Solutions' patent for our print cartridge designed for digital printing using electron beam imaging technologies. Further, in addition to the previously announced beta-test installation of Logical Imaging Solutions' DigitalColorPress, we have additional systems undergoing significant engineering performance evaluations. Depending on the outcome of these evaluations, we may then more aggressively pursue the restructuring of Logical Imaging Solutions and its further capitalization, if necessary. As the result of the foregoing, we have temporarily suspended further relocation and consolidation of Logical Imaging Solutions' operations and research and development activities from Santa Ana, California to our headquarters in Norcross, Georgia.

Color Imaging is currently testing recently installed toner manufacturing equipment to complete our factory expansion. This installation represents a \$1.5 million investment on our part to not only increase our business, but to also improve quality, product consistency and to lower costs. We believe that upon the conclusion of this testing our capacity will have doubled, to allow for increased volumes of manufactured products, manufacturing efficiencies and competitiveness. This month we have placed orders for \$100,000 of additional equipment to be installed before the end of this year to complete our first dedicated color toner manufacturing system, a system for which we have already invested some \$300,000. In our offering filed with the Securities and Exchange Commission on Form SB-2, we have made provision for \$1.5 million of new capital equipment, most of which is planned for additional dedicated color toner manufacturing systems for "business color" printing and copying systems being introduced by OEMs. The remainder of the planned capital investment is to further improve our toner research, development and quality control programs.

On July 8, 2002, Charles Allison was appointed Vice President, Technology, to increase executive management involvement in laser printer and copier product development, quality assurance and technical support. Mr. James Telsey was hired as Vice President, Sales & Marketing, to replace Mr. Allison in that position.

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During March 2002, we rescinded two transactions for the sale of our common stock and warrants to purchase additional shares of our common stock totaling 1,025,000 and 525,000, respectively. The purchasers paid the par value in cash for the shares issued to them, and the balance of the purchase price consisted of recourse promissory notes. The sale of 1,000,000 shares of our common stock and warrants to purchase an additional 500,000 shares of common stock was, per agreement, subject to our registering the securities for resale. However, the SEC staff took the position that these securities could not be registered for resale in this registration statement and the transaction was rescinded, the shares, warrant and promissory note were cancelled and we retained the \$10,000 and accrued interest earned thereon in consideration of our expenses incurred in connection with the transaction. The second transaction for 25,000 shares of our common stock and warrants to purchase an additional 25,000 shares of our common stock was rescinded when the parties believed the promissory note would not be paid by the time this registration statement became effective. The shares, warrant and promissory note were cancelled and the cash consideration was refunded the purchaser.

With the rescission of the two above-mentioned sales of our common stock totaling \$2,050,000, we anticipate that we will need to raise additional funds from other sources to meet operating requirements and to fund other planned activities. We intend to meet our operating requirements by borrowing from affiliates. Certain other planned activities are dependent upon either increased borrowings from our affiliates, borrowings from others or our raising funds through the sale of our securities. We will allow our directors, officers and affiliates of us to purchase up to \$7 million of our shares of common stock in this offering.

### PRODUCTS

| PRODUCT FAMILY                            | NET REVENUES FOR THE                 |  | PRIMARY PRODUCT FUNCTION                                 |
|---|--------------------------------------|--|--|
|   | THREE MONTHS ENDED<br>MARCH 31, 2002 | TWELVE MONTHS ENDED<br>DECEMBER 31, 2001 |  |
| Toner                                     | \$ 6,674,927                         | \$ 27,069,751                            | Data-processing, financial document printing and copying |
| Laser printer kits & parts                | \$ 986,396                           | \$ 2,900,017                             | Laser printer cartridge remanufacturing                  |
| Commercial printing products and services | \$ 197,755                           | \$ 551,399                               | Electron beam imaging composites and technical services  |

| PRODUCT FAMILY             | PRODUCTS OR SERVICES   |
|----------------------------|--|
| Toner                      | Aftermarket black text, color, specialty and magnetic character recognition toners in bulk, bottles and cartridges |
| Laser printer kits & parts | Remanufactured cartridges and printer parts for remanufactured OEM print cartridges                                |
| Commercial printing        | Printing systems, toner, print cartridges, erase rods and services   |

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products and services

support services

### MARKETING AND DISTRIBUTION

We market and distribute our products worldwide through our direct sales force. Color Imaging's products are marketed primarily to distributors, OEMs and rechargers, while Logical Imaging Solutions' products are marketed directly to commercial printers.

In the three months ended March 31, 2002 and the twelve months ended December 31, 2001, our sales were primarily generated from the sale of black text, color and magnetic character recognition toners and related consumable products, including toner cartridges and the re-filling of certain toner cartridges. For the three and twelve month periods ended March 31, 2002 and December 31, 2001, our two largest imaging products customers accounted for 47% and 21% and 41% and 16% of net sales, respectively. During the three months ended March 31, 2002, there were no sales to our third largest customer of 2001 who accounted for 12% of 2001 net sales, since these sales were made directly to our largest customer

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during 2002. Though our sales are on purchase orders, these customers typically issue purchase orders three months in advance of the product delivery date and provide us with an additional two month rolling forecast. While future orders may vary from the forecasts by as much as 20%, it has been our experience that the orders generally coincide with the customer's forecast.

### COMPETITION

The markets for our products are competitive and subject to rapid changes in technology. Color Imaging in particular competes principally on the basis of quality, flexibility and service, and as a full-service provider with a pricing strategy that reflects quality and reliability.

Color Imaging's competitors in the toner market include large businesses with significantly greater resources in the high-volume commodity toner market, as well as smaller companies in the specialty, color and magnetic character toner markets. In addition, other companies offer remanufactured toner cartridges and printer parts that are lower priced.

Color Imaging's strategy requires that it continue to develop and market new and innovative products at competitive prices. New product announcements by Color Imaging's principal competitors, however, can have, and in the past have had, a material adverse effect on our financial results. Such new product announcements can quickly undermine any technological competitive edge that one manufacturer may enjoy over another and set new market standards for quality, speed and function. Furthermore, knowledge in the marketplace about pending new product announcements by Color Imaging's competitors may also have a material adverse effect on us inasmuch as purchasers of these products may defer purchasing decisions until the announcement and subsequent testing of such new products.

In recent years, Color Imaging and its principal competitors which have significantly greater financial, marketing and technological resources than Color Imaging, have regularly lowered prices on both printer and copier imaging supplies and are expected to continue to do so in the future. Color Imaging is vulnerable to these pricing pressures which, if not mitigated by cost and expense reductions, may result in lower profitability and could jeopardize Color Imaging's ability to grow or maintain market share. We expect that, as we compete more successfully with our larger competitors, our increased market

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presence may attract more frequent challenges, both legal and commercial, from our competitors, including claims of possible intellectual property infringement.

Canon(TM), Xerox(TM) and Ricoh(TM) are the market leaders in the toner market whose aggregate sales Color Imaging believes represent approximately 75% to 85% of worldwide toner sales. As with our other products, if pricing pressures are not mitigated by cost and expense reductions, Color Imaging's ability to maintain or build market share and profitability could be adversely affected.

Like certain of Color Imaging's competitors, Color Imaging is a supplier of laser printer kits and parts. Color Imaging cannot assure you that Color Imaging will be able to compete effectively for a share of this business. In addition, Color Imaging cannot assure you that Color Imaging's competitors will not develop new compatible laser printer products that may perform better or sell for less than Color Imaging's products. Independent manufacturers compete for the aftermarket business under either their own brand, private label, or both, using price, aggressive marketing programs, and flexible terms and conditions to attract customers. Depending on the product, prices for compatible products produced by other manufacturers are offered below Color Imaging's prices, in some cases significantly below Color Imaging's prices.

Logical Imaging Solutions' commercial printing products and services have few direct competitors due to the specialization of these products. Logical Imaging Solutions' indirect competitors offer alternative products that use other printing technologies such as inkjet or xerography with different speed and print resolution capabilities. Unlike xerography, electron beam imaging prints on the offset press and at higher speeds than xerography. Electron beam imaging also requires less system maintenance than an inkjet system. Delphax Printing Systems, a wholly owned subsidiary of Check Technology Corporation who acquired Delphax from Xerox Corporation in December 2001, is a supplier of electron beam imaging print engines to Logical Imaging Solutions and others, but to Logical Imaging Solutions' knowledge does not market a system to commercial printers for on-press applications. Delphax, considered the leader in electron beam imaging technology, has been supplying systems to the data processing market for over twenty years, and does not, to Logical Imaging Solutions' knowledge, supply software or systems capable of printing in color. Check Technology Corporation, who recently changed its name to Delphax Technologies, Inc., a supplier of check printing equipment, does not, to Logical Imaging Solutions' knowledge, offer software or systems capable of printing in color or any other on-press application. However, in view of this sale, Delphax could become a direct competitor of Logical Imaging Solutions or could stop supplying its products to Logical Imaging Solutions.

We believe that the synergy between Color Imaging and Logical Imaging Solutions with respect to printing systems and proprietary consumable products will enhance both operations as our consumable supply side grows with printing system sales.

### MANUFACTURING

We operate a toner manufacturing facility in Norcross, Georgia that we moved into during 1999 and 2000. We have made significant capital investment in this facility to increase production capacity and improve manufacturing efficiencies to lower our processing costs of our toner products. The installation and successful testing of additional equipment is to be completed by the second quarter 2002 and is an integral part of our plan to further increase production capacity, improve efficiency and to significantly lower the costs of our toner products. Our goal for the last three years has been to reduce average toner

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product costs by one-half, in response to management's assessment of the continuing price reductions for these products in the marketplace.

Logical Imaging Solutions' electron beam imaging, Solution Series and DigitalColorPress printer system hardware and software design, development and support organization, is located in Santa Ana, California. Except for certain technical support activities it is being relocated to our headquarters in Norcross, GA. Logical Imaging Solutions' strategy has been to integrate proprietary software and hardware with components available from third parties into a complete high speed digital printing system for use by commercial printers.

### MATERIALS

We procure a wide variety of components for use in our manufacturing processes, including raw materials, such as chemicals and resins, electro-mechanical components and assemblies. Although many of these components are standard off-the-shelf parts that are available from multiple sources, we often utilize preferred supplier relationships to ensure more consistent quality, cost and delivery. Often Color Imaging's toner formulations are dependent on one or more materials produced by only one vendor, since the formula was developed based on that material's unique characteristics. Alternative materials exist, but the differences in performance characteristics could require Color Imaging to modify the original formula and/or its manufacturing processes to obtain a marketable product based on the new material. Further, some components are only available from one supplier, including certain custom chemicals, application specific integrated circuits and other semiconductors. In addition, we source some print engines and other finished products from OEMs. Should these components not be available from any one of these suppliers, there can be no assurance that production of certain of our products would not be disrupted. In the event that these components are not available to us, our production could be disrupted. Such a disruption could materially harm our business.

### RESEARCH AND DEVELOPMENT

Our research and development activities for the past several years have focused on black text, specialty, color and magnetic character toner formulations, and the development of electron beam imaging technologies and supplies. Our commitment to increasing revenues through new product introductions requires research and development expenditures, innovative designs, significant development and testing activities and functional solutions.

For the three months ended March 31, 2002, our research and development expenditures increased \$45,500, or 21%, from \$216,900 for the three months ended March 31, 2001. Our research and development expenditures for the twelve months ended December 31, 2001, increased \$119,000, or 16%, to \$883,000 in 2001 from \$764,000 in 2000. It is necessary to make strategic decisions from time to time as to which technologies will produce products with the greatest future potential. Occasionally, a customer will ask Color Imaging to develop toner products for their exclusive resale, and in that event the customer will generally financially support Color Imaging's development activities. In turn, Color Imaging will also occasionally work with suppliers to develop proprietary technology for Color Imaging's exclusive use. These strategic relationships have benefited us in the past, and we intend to continue to pursue such relationships for new products. Our software, electrical and mechanical engineers, chemists and consultants are focused on development of printing systems and consumables that will increase efficiency, lower production costs or improve the quality of Logical Imaging Solutions' electron beam imaging commercial printing products. With certain products, we may elect to purchase key components from third party suppliers, such as electron beam imaging print engines or related parts and consumables for electron beam imaging technology until Logical Imaging Solutions has sufficient proprietary products of its own. We cannot predict whether we can



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continue to develop the technologically advanced products required to remain competitive or that such products will achieve market acceptance.

### INTELLECTUAL PROPERTY

We seek to protect technology, inventions and improvements that we consider important through the use of trade secrets and in some cases patents. We currently hold U.S. patent number 5,834,150 issued on November 10, 1998 and expiring in July 2014. This patent covers toners for Logical Imaging Solutions' high speed printing system and certain other toner fusing methods. We were also just granted U.S. patent number 6,386,684, Curved Print Head for Charged Particle Generation, which we believe is an improved print head for digital high-speed printing or image generation. Additionally, we are preparing another patent application in connection with our high speed non-magnetic color toning system. To date we have not generated any revenue from these patents. There can be no assurance that our patents and technologies will provide competitive advantages for our products, or that such rights will not be challenged or circumvented by competitors. In addition, there can be no assurance that any

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patents covered under any patent applications that may be made will be issued. Claims made under patent applications may be denied or significantly narrowed and the issued patents, if any, may not provide significant commercial protection to us. We could incur substantial costs in proceedings before the U.S. Patent and Trademark Office, including interference proceedings. These proceedings could result in adverse decisions as to the priority of our inventions.

While we do not believe that any of our products infringe any valid claims of patents or other proprietary rights held by third parties, there can be no assurance that these products do not infringe any patents or other proprietary rights held by third parties. If an infringement claim were made, the costs incurred to defend the claim could be substantial and adversely affect us, even if we were ultimately successful in defending the claim. If our products were found to infringe any proprietary right of a third party, we could be required to pay significant damages or license fees to the third party or cease production. Litigation may also be necessary to enforce patent rights held by us, or to protect trade secrets or techniques owned by us. Any such claims or litigation could result in substantial costs and diversion of effort by management.

While we seek to protect our electron beam imaging technology, we have not pursued patent protection for other technology because the benefit of doing so is out weighed by the cost. Specifically, we believe patent protection is of limited usefulness in areas other than electron beam imaging technology because competitors have the ability (even if we had a patent) to develop substantially equivalent technology. Therefore, we rely on trade secrets and other unpatented proprietary technology. 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 our proprietary technology. We also seek to protect our trade secrets and proprietary know-how, in part, with confidentiality agreements with employees and consultants. There can be no assurance that the agreements will not be breached, that we will have adequate remedies for any breach or that our trade secrets will not otherwise become known to or independently developed by competitors.

### EMPLOYEES

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As of March 31, 2002, we had eighty-eight (88) employees, including two (2) employees on leave of absence and one (1) part-time employee. At December 31, 2001, we had ninety-two (92) employees, including one (1) part-time employee, while at December 31, 2000, we had one hundred six (106) employees, including one (1) part-time employee. None of our employees is represented by a labor union or is covered by a collective bargaining agreement. We have not experienced any work stoppages and consider our relations with employees to be good.

### ENVIRONMENTAL AND REGULATORY MATTERS

Color Imaging's toner supplies manufacturing operations are subject to laws and regulations, relating to environmental matters that impose limitations on the discharge of pollutants into the air, water and soil and establish standards for the treatment, storage and disposal of solid and hazardous wastes. In this regard, Color Imaging is required to have a permit in order to conduct various aspects of its business. The Air Protection Branch of the State of Georgia's Department of Natural Resources Environmental Protection Division issued a permit to Color Imaging in 2000 to construct and operate a copier and printer toner manufacturing facility at our headquarters. The permit is conditioned upon compliance by us with all the provisions of the Georgia Air Quality Act, and specifically the Rules, Chapter 391-3-1, in effect. In addition to operating and maintaining the equipment, in a manner consistent with good air pollution control practice to minimize emissions, we must maintain records, conduct tests, and comply with certain allowable emissions and operational limitations. The permit is subject to revocation, suspension, modification or amendment for cause, including evidence of our noncompliance. Compliance with these laws and regulations in the past has not had a material adverse effect 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 effect on us.

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### FACILITIES

We currently lease a facility of approximately 180,000 square feet in Norcross, Georgia from an affiliated party. This facility serves as our executive headquarters and houses our toner manufacturing facilities, as well as our research and development and sales and marketing departments. The lease for this facility expires in March of 2009 and includes three options at our election to extend the term for five years each. We also lease an approximately 4,000 square foot facility in Santa Ana, California under a lease that expired in October 2001. Currently the Santa Ana facility lease is month-to-month. Management considers these facilities to be sufficient for our current operations.

### LEGAL PROCEEDINGS

We are not a party to any material legal proceedings.

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### MARKET FOR COMMON STOCK AND RELATED STOCKHOLDER MATTERS

Our Common Stock is traded on the Over the Counter Bulletin Board (the OTC

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Bulletin Board) under the symbol CIMG. Prior to July 7, 2000, the Common Stock was traded on the OTC Bulletin Board under the symbol ADTX. The following table sets forth the high and low prices of the Common Stock for the quarters indicated as quoted on the OTC Bulletin Board.

|                     | 2000   |        | 2001   |        | HIGH     |
|---------------------|--------|--------|--------|--------|----------|
|                     | HIGH   | LOW    | HIGH   | LOW    |          |
| First Quarter.....  | 2.2792 | 1.2344 | 3.0000 | 2.5000 | 3.3500   |
| Second Quarter..... | 5.6980 | 1.3298 | 2.6500 | 1.9000 | 2.5600   |
| Third Quarter.....  | 6.2500 | 2.0000 | 2.7500 | 1.9000 | 1.5000 ( |
| Fourth Quarter..... | 5.1250 | 2.0000 | 4.3000 | 2.0000 |          |

(1) Through July 8, 2002.

The above quotations represent prices, adjusted for stock splits, between dealers without adjustments for retail markups, markdowns or commissions and may not represent actual transactions.

As of June 30, 2002, there were approximately 345 holders of record of our common stock.

We do not anticipate paying cash dividends on our common stock in the foreseeable future. We currently intend to retain future earnings to finance our operations and fund the growth of its business. Any payment of future dividends will be at the discretion of our Board of Directors and will depend upon, among other things, our earnings, financial condition, capital requirements, level of indebtedness, contractual restrictions with respect to the payment of dividends and other factors that our Board of Directors deems relevant.

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### MANAGEMENT'S DISCUSSION AND ANALYSIS

#### OVERVIEW

On June 28, 2000, Color Imaging, Inc., 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. We previously accounted for the merger as a pooling-of-interests and has since revised its accounting treatment for the merger to the purchase method. The financial information contained in this report is in conformity with the purchase method of accounting, and the historical financial statements are those of Logical Imaging Solutions. The assets, liabilities and operating results of Color Image are only included in the consolidated financial statements of Color Imaging from the date of acquisition, June 28, 2000, or for only the last six months of the year ended December 31, 2000 and for the full year ended December 31, 2001. On December 31, 2000, Color Image was merged with and into Color Imaging.

Net sales are primarily generated from the sale of Color Imaging's black text,

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color and magnetic character recognition toners and related consumable products, including toner cartridges and the re-filling of certain toner cartridges. We do not have a written or oral contract with our customers, and all sales are made through purchase orders. 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.

Our net sales were \$7.9 million for the three months ended March 31, 2002, an increase of 44% compared to \$5.5 million for the three months ended March 31, 2001. In the three months ended March 31, 2002, a distributor of imaging supplies, our largest customer, accounted for approximately 47% of net sales. Of the \$7.9 million in net sales for the three months ended March 31, 2002, \$5.1 million were attributable to copier products of Color Imaging. The revenue increase from copier products to \$5.1 million from 2002 to 2001 was \$1.9 million, or 59%. We believe that sales of laser printing products will increase in future periods as a result of our factory expansion to be completed in the second quarter of 2002. We further believe that completion of these tasks, with the resulting added capacity and increased production, will increase manufacturing efficiencies and competitiveness and reduce cost of sales. Net sales made outside of the United States increased to 34% of total sales for the three months ended March 31, 2002, compared to 9% for the comparable period last year. This increase in international sales resulted primarily from the increase in sales to our two largest customers.

Our net sales were \$30.5 million for the year ended December 31, 2001, or an increase of 152% compared to \$12.1 million for the year ended December 31, 2000. Of the \$30.5 million in net sales, \$30.0 million were attributable to laser printer and copier products of Color Imaging. The remainder, \$0.5 million of sales was generated by Logical Imaging Solutions' sales of high speed printing systems related consumable products. The revenue increase from copier products from \$7.3 million to \$20.7 million from 2000 to 2001 was \$13.4 million, or 184%. Had the entire year of Color Image's operations been included in the year 2000, the copier product sales for 2000 would have been \$12.1 million and the increase only \$8.6 million or 71%. In the year ended December 31, 2001, a distributor of imaging supplies accounted for approximately 41% of net sales. Sales to this customer consist primarily of analog copier products, and as the result are expected to decline over time unless these declining sales to this customer are offset by the sale of digital copier products.

Logical Imaging Solutions' sales of printing systems and related software and consumable products for the three months ended March 31, 2002 and the year that ended on December 31, 2001 represented 2.5 percent and 2 percent of our net revenues, respectively.

### ACCOUNTING PRINCIPLES

Revenue from product sales is recognized when persuasive evidence of an arrangement exists, delivery has occurred, the fee is fixed or determinable and collectibility is probable. At this time the earnings process is complete and the risks and rewards of ownership have transferred to the customer, which is generally when the goods are shipped and all of our significant obligations have been satisfied.

Cost of goods sold includes direct material and labor, warranty expenses, license fees and manufacturing and service overhead. Inventories are stated at the lower of cost (first-in, first-out) or market. Equipment is depreciated

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using the straight-line method over the estimated useful lives of the equipment. Improvements to leased property are amortized over the lesser of the life of the lease or the life of the improvements.

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Selling, general and administrative expenses include marketing and customer support staff, other marketing expenses, management and administrative personnel costs, professional services, legal and accounting fees and administrative operating costs. Selling, general and administrative costs are expensed when the costs are incurred.

Deferred charges include fees and costs related to the activities associated with the planned acquisition of business assets that we have determined have a future economic benefit. These expenditures are then capitalized into the cost of the assets upon acquisition. Management reviews these assets when the circumstances and situations change such that there is an indication that the carrying amount is not recoverable. When management's best estimate of the future economic benefit of these assets is less than the carrying amount, the carrying amount is reduced to the fair value and a write-off is recognized.

Research and development expenses include costs associated with the development of new products and significant enhancements of existing products, and consist primarily of employee salaries, benefits, consulting expenses and depreciation of laboratory equipment. With the exception of certain patented products that are coming to market, all research and development costs are expensed as they are incurred.

### CRITICAL ACCOUNTING POLICIES

Our financial statements are prepared in accordance with accounting principles generally accepted in the United States, which require management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements, the disclosure of contingent assets and liabilities, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. We believe the following critical accounting policies affect our more significant estimates and assumptions used in the preparation of our financial statements. Our significant estimates and assumptions are reviewed and any required adjustments are recorded on a quarterly basis.

Carrying Value of Electron Beam Imaging Test Equipment. As of March 31, 2002 the net book value of our investment in electron beam imaging test equipment was approximately \$1.4 million. We have estimated the useful life of this equipment to be ten years. The equipment is new technology and is used by us to support our selling, manufacturing and research and development activities in connection with Logical Imaging Solutions' DigitalColorPress. To date, however, we have not fully commercialized the DigitalColorPress, and the future benefit that we would derive from this equipment is dependent upon our successfully commercializing this technology and our products remaining competitive for at least the length of time we have estimated its useful life. Should we not be successful in fully commercializing the related DigitalColorPress products or realizing the sufficient levels of sales from such products, the equipment could become partially or fully impaired.

Lower of Cost or Market for Inventory. Our inventories are recorded at the lower of standard cost or market. As with any manufacturer or wholesaler, 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. As circumstances warrant, we record lower of cost or market inventory adjustments. In some instances these adjustments can have a

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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. 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.

Carrying Value of Toner Manufacturing Equipment. We are nearing the completion of the latest expansion of our toner manufacturing facility. We have approximately \$7.5 million invested in the equipment and leaseholds, with a carrying value of \$6 million, in connection with toner manufacturing that have estimated lives of up to twenty years. Should competing technologies or offshore competitors cause our manufacturing technology to be non-competitive, the estimated life of these assets may need to be shortened and their carrying value could be materially affected.

### RESULTS OF OPERATIONS

The following table sets forth, for the periods indicated, selected information derived from Color Imaging's twelve month audited and interim unaudited consolidated statements of operations and expressed as a percentage of net sales. All periods reflect the operating results of Logical Imaging Solutions, while the operating results of Color Image are only included from after the date of the merger, June 28, 2000.

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|                               | Twelve Months Ended<br>December 31, |      |      | Three Months Ended<br>March 31, |      |
|-------------------------------|-------------------------------------|------|------|---------------------------------|------|
|                               | 2001                                | 2000 | 1999 | 2002                            | 2001 |
| Net sales                     | 100                                 | 100  | 100  | 100                             | 100  |
| Cost of goods sold            | 85                                  | 85   | 66   | 84                              | 82   |
| Gross Profit                  | 15                                  | 15   | 34   | 16                              | 18   |
| Administrative expense        | 6                                   | 7    | 73   | 6                               | 8    |
| Deferred charge write-off     | 1                                   | 0    | 0    | 0                               | 0    |
| Research and development      | 3                                   | 6    | 73   | 3                               | 4    |
| Sales and marketing           | 4                                   | 4    | 0    | 4                               | 4    |
| Operating income              | 1                                   | -2   | -112 | 3                               | 2    |
| Interest and bond expense     | 1                                   | 2    | 3    | 1                               | 2    |
| Depreciation and amortization | 2                                   | 3    | 1    | 2                               | 3    |
| Income before taxes           | 0                                   | -8   | -113 | 2                               | 0    |
| Provision for taxes (credit)  | 0                                   | -3   | -45  | 1                               | 0    |
| Net income (loss)             | 0                                   | -5   | -68  | 1                               | 0    |

### THREE MONTHS ENDED MARCH 31, 2002 COMPARED TO THREE MONTHS ENDED MARCH 31, 2001

Net Sales. Our net sales were \$7.9 million for the three months ended March 31, 2002, an increase of 44% compared to \$5.5 million for the three months ended

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March 31, 2001. Of the \$7.9 million in net sales, \$5.1 million were attributable to copier products of Color Imaging. The revenue increase from copier products to \$5.1 million from 2002 to 2001 was \$1.9 million, or 59%, resulting from increased sales of copier products with lower margins to our largest customer. We do not expect to have these lower margin copier product sales after the third quarter of this year. While copier product sales increased 59%, our overall sales increased only 44%, as the result of our achieving only a 10% sales increase in printer products. We believe that sales of laser printing products will increase in future periods as a result of our factory expansion which is nearing completion. We further believe that completion of these tasks, and our obtaining larger orders for manufactured product, that the added capacity and increased production will increase manufacturing efficiencies and competitiveness and reduce cost of sales. Net sales made outside of the United States increased to 34% of total sales for the three months ended March 31, 2002, compared to 9% for the comparable period last year. This increase in international sales resulted primarily from the increase in sales to our two largest customers.

Cost of Goods Sold. Cost of goods sold increased by \$2.1 million or 47% to \$6.6 million in the three months ended March 31, 2002 from \$4.5 million for the three months ended March 31, 2001. This increase was primarily due to increased net sales. Cost of goods sold as a percentage of net sales increased by 2 percentage points from 82% for the three months ended March 31, 2001 to 84% for the three months ended March 31, 2002. This increase reflected the increase in certain copier product sales at lower margins.

Gross Profit. As a result of the above factors, gross profit increased to \$1.3 million in the three months ended March 31, 2002 from \$1.0 million in the three months ended March 31, 2001. Gross profit as a percentage of net sales, however, decreased by 2 percentage points from 18% to 16% for the three months ended March 31, 2002, as compared to the corresponding period of the prior year. During 2002, with the completion of the factory expansion and expected increased in sales, management believes that both the gross profit dollars and percentage will improve over 2001.

Operating Expenses. Operating expenses increased \$101,000 or 11% to \$999,700 in the three months ended March 31, 2002 from \$898,800 in the three months ended March 31, 2001. General and administrative, selling and R&D expenses decreased, as a percentage of net sales, to 13% in the three months ended March 31, 2002 from 16% in the three months ended March 31, 2001. General and administrative expenses were approximately the same at \$460,000 for the three months ended March 31, 2002 and 2001. Selling expenses increased by \$50,700, or 22%, in the three months ended March 31, 2002 compared to the three months ended March 31, 2001. Selling expenses increased primarily as the result of the increased marketing costs associated with the increased revenues from copier products. Research and development expenses increased by \$45,500, or 21%, to \$262,400 in the three months ended March 31, 2002. Research and development expenses as a percentage of net sales decreased to 3% in the three months March 31, 2002, from 4% in the three months ended March 31, 2001, reflecting the higher sales level.

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Operating Income. As a result of the above factors, operating income increased by \$154,800, to a profit of \$270,000 in the three months ended March 31, 2002 from \$115,200 in the three months ended March 31, 2001.

Interest and Finance Expense. Interest expense decreased by \$39,900 in the three months ended March 31, 2002 from the three months ended March 31, 2001. The decrease was primarily the result of lower interest rates and secondarily the result of reduced interest bearing debt levels.

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Other Income. Other income decreased by \$1,000 from income of \$8,000 to income of \$7,000 in the three months ended March 31, 2002 from the three months ended March 31, 2001.

Income Taxes. As the result of our increased profit in the current year, income tax provisions were \$80,000 for the three months ended March 31, 2002 compared to a tax credit of \$2,000 for the three months ended March 31, 2001.

### YEAR ENDED DECEMBER 31, 2001 COMPARED TO YEAR ENDED DECEMBER 31, 2000

Net Sales. Our net sales were \$30.5 million for the year ended December 31, 2001, or an increase of 152% compared to \$12.1 million for the year ended December 31, 2000. Of the \$30.5 million in net sales, \$30.0 million were attributable to laser printer and copier products of Color Imaging. The remainder, \$0.5 million of sales was generated by Logical Imaging Solutions' sales of high speed printing systems related consumable products. The revenue increase from copier products from \$7.3 million to \$20.7 million from 2000 to 2001 was \$13.4 million, or 184%. Had the entire year of Color Image's operations been included in the year 2000, the copier product sales for 2000 would have been \$12.1 million and the increase only \$8.6 million or 71%. We believe that sales of laser printing products will increase in future periods as a result of our factory expansion to be completed in the second quarter of 2002. We further believe that completion of these tasks, with the resulting added capacity and increased production, will increase manufacturing efficiencies and competitiveness and reduce cost of sales.

Cost of Goods Sold. Cost of goods sold increased by \$15.7 million or 152% to \$26.0 million in the year ended December 31, 2001 from \$10.3 million in the year ended December 31, 2000. Had Color Image's entire year 2000 been included, cost of goods sold would have increased by \$8.1 million or 45%. This increase was primarily due to increased net sales. Cost of goods sold as a percentage of net sales remained at 85% in the year ended December 31, 2001.

Gross Profit. As a result of the above factors, gross profit increased to \$4.5 million in the year ended December 31, 2001 from \$1.8 million in the year ended December 31, 2000. Gross profit as a percentage of net sales, however, in the year ended December 31, 2001 remained the same as December 31, 2000 at 15%. During 2002, with the completion of the factory expansion, management believes that both the gross profit dollars and percentage will improve over that achieved in 2001.

Operating Expenses. Operating expenses increased \$1,869,000 or 88% to \$3,994,000 in the year ended December 31, 2001 from \$2,125,000 in the year ended December 31, 2000. Had the entire year of Color Image's been included in the year 2000, these expenses would have increased approximately 16%. Notwithstanding the deferred charge write-off, general and administrative, selling and R&D expenses decreased, as a percentage of net sales, to 13% in the year 2001 from 17% in the year ended December 31, 2000. General and administrative expenses increased by \$809,000, or 91%, primarily as the result of only reflecting Color Image's expenses for the last half of the year 2000. Had Color Image's expenses been included for the entire year 2000, the increase would have been 15%, and that increase was largely due to increased professional fees and payroll as the result of the expanded operations of Color Imaging. Selling expenses increased by \$725,000, or 154%, in the year ended December 31, 2001 compared to the year ended December 31, 2000. Had Color Image's selling expenses been included for the entire year 2000, the increase would have been \$315,000, or 36%, in the year ended December 31, 2001 compared to the year ended December 31, 2000. Selling expenses increased primarily as the result of the increased marketing costs associated with the increased revenues from copier products. Research and development expenses increased by \$119,000, or 16%, to \$883,000 in the year ended December 31, 2001. Research and development expenses as a percentage of net sales decreased to 3% in the year 2001, from 6% in the year 2000, reflecting



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the higher sales level. Research and development expenses, particularly in connection with toner formulation and manufacturing process development, are expected to increase further during 2002.

Deferred Charge Write-Off. An expense of \$215,000 was recorded in the year ended December 31, 2001, for expenditures related to activities in connection with an acquisition of a manufacturing business that was not consummated. \$53,000 of this expense was incurred during the year ended December 31, 2000 and \$162,000 during the year ended December 31, 2001.

Operating Income. As a result of the above factors the operating income increased by \$820,000, to a profit of \$474,000 in the year ended December 31, 2001 from a loss of \$346,000 in the year ended December 31, 2000.

Interest and Finance Expense. Interest expense increased by \$176,000 in the year ended December 31, 2001 from the year ended December 31, 2000. Had Color Image's interest expense for the entire year 2000 been included in interest and finance

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expenses, these expenses would have actually decreased \$72,000 in the year ended December 31, 2001 from \$489,000 in the year ended December 31, 2000. The decrease on a full year basis was primarily the result of lower interest rates and secondarily the result of reduced interest bearing debt levels.

Other Income. Other income increased by \$434,000 from expenses of \$404,000 to income of \$30,000 in the year ended December 31, 2001 from the year ended December 31, 2000. This increase was primarily due to not having the expenses in 2001 for the relocation of Color Imaging's manufacturing facilities and disposal of equipment that was experienced during 2000.

Income Taxes. As the result of our increased profit in the current year, income tax provisions were \$37,000 for the year ended December 31, 2001 compared to a tax credit of \$333,000 for the year ended December 31, 2000.

### LIQUIDITY AND CAPITAL RESOURCES

At March 31, 2002, our working capital was approximately \$2.7 million and our current ratio was 1.34 to 1. At the year ended December 31, 2001, working capital was approximately \$2.6 million and our current ratio was 1.35 to 1.

Cash flows provided by operating activities were \$38,000 in the three months ended March 31, 2002 compared to \$252,000 in the three months ended March 31, 2001. The cash flows provided by operating activities in the three months ended March 31, 2002 decreased primarily from carrying higher levels of accounts receivable and our reducing payables and accrued liabilities during 2002. While accounts and other receivables increased by \$456,000, reflecting our growth in net sales, in the three months ended March 31, 2002, this use of cash flow was partially offset by a reduction of inventory for the same period of \$241,000. We have improved our inventory turnover beyond that which is reflected in the inventory balances. As the result of changing to purchasing from our largest vendor at terms of freight on board at origination, we have some \$700,000 of inventory in transit at March 31, 2002. While, on the other hand, we had no inventory in transit at March 31, 2001. Had we not changed the terms of our purchasing from our largest vendor, our inventory at March 31, 2002 would have been approximately \$5.1 million compared to \$6.1 million at March 31, 2001, or a reduction to inventory of \$1 million, or 16%, while net sales increased 44%.

Cash flows used in investing activities were \$300,000 in the three months ended March 31, 2002, compared to \$328,000 in the three months ended March 31, 2001.

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Included in cash flows used in investing activities in the three months ended March 31, 2002, was \$296,000 in capital expenditures in connection with the completion of our factory expansion.

We have a \$2.5 million revolving line of credit with our bank that has an outstanding balance as of March 31, 2002 of \$1,432,000. At the end of each month, for the following month, we have an interest rate option of either the one-month LIBOR interest rate in effect two business days before the first day of the month plus 2.50% or our bank's prime interest rate minus 0.25%. As of March 31, 2002, the interest rate was the one-month Libor rate of 2.25% plus 2.50% (6.87%). This revolving line of credit was renewed effective June 30, 2002 and now has a June 30, 2003 expiration date.

Under the line of credit, we are permitted to borrow up to 85% of eligible accounts receivable and 50 percent of eligible inventories (up to a maximum of \$1.1 million and not to exceed 60 percent of the total outstanding). We have granted our bank a security interest in all of our assets as security for the repayment of the lines of credit.

The Bank agreement contains various covenants which Color Imaging is required to maintain. As of March 31, 2002, Color Imaging was in compliance with those covenants.

Cash flow provided by financing activities for the three months ended March 31, 2002 was \$552,000, resulting primarily from the \$500,000 loan we received from an officer. Had we not received the loan, cash flows provided by financing activities at March 31, 2002 would have been \$52,000 compared to cash flows utilized in financing activities of \$95,000 for the three months ended March 31, 2001.

Funds generated from operating activities and availability under credit facilities are expected to be insufficient to finance our plans to expand operating activities for the remainder of 2002. Having rescinded two transactions during March 2002 for the sale of our securities totaling \$2,050,000, we anticipate that we will need to raise an additional \$500,000 from other sources to fund these activities. To meet these requirements we intend to seek financing from our affiliates and engage in sales of our securities. We have received our bank's consent to borrow up to \$1.4 million from affiliates. We borrowed \$500,000 during the first quarter 2002 from an officer to meet vendor commitments for products. Notwithstanding our success in obtaining financing in the amount of \$500,000, funds on hand will be insufficient to meet our planned need for an additional \$500,000, consisting of \$500,000 to vendors for products. Should we not obtain these additional funds, certain operational activities would be either reduced or curtailed entirely to meet our existing commitments and a \$250,000 principal payment due on our industrial development bond on July 1, 2002. We intend to fund these planned activities by either borrowing the additional funds from affiliates or selling our securities. There can be no assurance that additional financing will be available on favorable terms or that the proceeds from the sale of our securities will be available to meet these planned operating and financing activities. We believe that these operating and investing activities, if successfully completed, will increase revenues and operating margins.

### DIRECTORS, EXECUTIVE OFFICERS, PROMOTERS AND CONTROL PERSONS

Our directors and executive officers are as specified on the following table:

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| NAME                     | AGE | POSITION  |
|--------------------------|-----|---|
| Jui-Hung Wang            | 55  | Director and Chairman of the Board  |
| Sueling Wang, PhD        | 49  | President and Vice Chairman   |
| Morris E. Van Asperen    | 58  | Executive Vice President, Chief Financial Officer, Secretary and Director |
| Charles R. Allison       | 69  | Vice President, Technology, and Director                                  |
| James F. Telsey          | 55  | Vice President, Sales & Marketing   |
| Michael W. Brennan       | 59  | Director  |
| Edwin C. St. Amour       | 60  | Director  |
| Robert L. Langsam        | 56  | Director  |
| Jui-Chi Jerry Wang       | 46  | Director  |
| Jui-Kung Wang            | 59  | Director  |
| Victor A. Hollander, CPA | 69  | Director  |

Jui-Hung (Jack) Wang, Chairman since June 2002, has served as a director of Color Imaging since June 2001. He was a founder and director of Color Image, Inc. until its merger with Color Imaging. He is a founder and serves as Chairman of General Plastic Industrial Co., Ltd, a leading Taiwan based manufacturer of after market injection molded cartridges and accessories for copiers and laser printers. Since January 2001, Mr. Wang has served as a director of Taiwan Yu-Tzu Company, a food company. In 1998, Mr. Wang was a founding member of Kings Brothers LLC, which leases space to Color Imaging used for our headquarters and manufacturing facilities in Norcross, Georgia. From 1986 to 1994, Mr. Wang was mayor of Wu-Chi Town, Taiwan.

Sueling Wang, PhD., became President and Vice-Chairman of Color Imaging in June 2000. From 1989 to 2000, he served as President and director of Color Image, Inc. which was merged with Color Imaging. Dr. Wang was also a founder of Color Image Inc. In 1998, Dr. Wang was a founding member of Kings Brothers LLC, which leases space to Color Imaging used for our headquarters and manufacturing facilities in Norcross, Georgia. Dr. Wang received a M.S. degree from the University of Windsor, in Ontario, Canada and a PhD degree from the University of Detroit. Dr. Wang's expertise in resin synthesis brought him into the toner industry and led to the formation of Color Image, Inc. in 1989.

Morris E. Van Asperen has served as Executive Vice President, Chief Financial Officer and director of Color Imaging since June 2000 and Secretary since June 2001. Since 1998, he has served as director of Logical Imaging Solutions. From 1986 to 2000, he was employed by National Bank of California in various positions most recently as Executive Vice President and Credit Administrator. Mr. Van Asperen also has extensive experience as a financial and management consultant to businesses of up to \$50 million in revenues and 1,000 employees in construction, household goods, industrial glass, and electronics manufacturing and software development. From 1977 to 1984, he served as Vice President & Chief Financial Officer of ATE Associates, Inc., a supplier of test fixtures and software for numerous military aircraft programs. Mr. Van Asperen received a B.S. degree in Mathematics from the University of Oklahoma and an M.B.A. degree from Pepperdine University.

Charles R. Allison, a director since June 2000, was made Vice President, Technology in July 2002. Prior to that he served as Vice President, Marketing and Sales of Color Imaging since June 2000. From 1992 to 2000, he served as Vice President of Marketing and Sales of Color Image, Inc., which was merged with and into Color Imaging. From 1982 to 1991, he served as Vice President of Sales and Marketing, and general manager, at Synfax Manufacturing, Inc., an early developer of consumable products for EBI-based printing technologies. Mr. Allison has held other senior positions in the printing/imaging industry,

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including positions with Minolta Corporation, Litton Business Systems and Royal McBee.

James F. Telsey, Vice President Sales & Marketing, joined Color Imaging in July 2002. From November 1998 to July 2002 Mr. Telsey was President of Copysource Imaging Supplies, Inc., a wholesaler of OEM copier supplies. For a year prior to that, he was major accounts manager of Corporate Copy International, a north American wholesaler of OEM copier products. From 1978 to 1997, Mr. Telsey held a number of senior management positions in sales organizations selling imaging supplies. In the late 1980's he was involved with establishing the original 48 SKUs for the then 21 retail outlets, subsequently becoming the office supply super stores.

Michael W. Brennan, a director and Chief Executive Officer of Logical Imaging Solutions, Inc., was formerly Chairman of the Board and Chief Executive Officer of Color Imaging, Inc. from June 2000 to June 2002. From 1997 to 2000, he served as a director and President of Logical Imaging Solutions, and in June 2000 Logical Imaging Solutions became a wholly owned subsidiary of the Color Imaging, Inc. From 1991 to 1995 he served as President of Interscience Computer Corporation (Interscience). Mr. Brennan has a B.S. degree in electrical engineering from the University of Southern California, an M.B.A. degree from Pepperdine University, is a Fellow of the Institute of Directors (London, England) and an adjunct faculty member of the University of Phoenix. He has over

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twenty years of experience within the computer industry and participated in the founding of four companies that became publicly held corporations; three in the U.S. (Computer Automation, Datum, Inc. and Interscience) and one on the London International Stock Exchange (Optim PLC). Mr. Brennan has developed many successful products within the computer industry and holds patents on processes that are widely used in high-speed printing.

Edwin C. St. Amour has served as a director of Color Imaging since June 2000. In 2001, he founded Golf Car Trader, Inc. and serves as its President. He is Chairman of American Computer Hardware Corporation having founded Color Imaging in 1979. Mr. St. Amour began developing and marketing Electron Beam Imaging (EBI) related products in the 1980's. He founded Logical Imaging Solutions in 1993 to develop EBI compatible hardware and software products and adapt this technology to produce plug-and-play products for form manufacturers. He served as Logical Imaging Solutions' President from 1993 until 1997 and Chairman from 1993 until June 2000 when it became a subsidiary of Color Imaging. Mr. St. Amour entered the printing industry in the early sixties and began marketing forms and documents for Moore Business Forms and Standard Register Corp.

Robert L. Langsam has served as a director of Color Imaging since June 2000. In 1980, he founded Diversified Financial Management (DFM), a financial planning services organization, and has served as its President since then. From 1975 to 1979, he was Assistant Corporate Controller for MCI Communications and was responsible for the operational accounting controls and systems, as well as extensive involvement in product pricing and filings. From 1970 to 1975, Mr. Langsam was Chief Financial Officer of the copier products division of SCM. Mr. Langsam holds a B.S. degree in Marketing/Accounting from Pace University and double MBA degrees in Finance and Taxation from Adelphi and St. John's Universities.

Jui-Chi (Jerry) Wang has served as a director of Color Imaging since June 2000. From 1994 until 2000, he served as a director of Color Image, Inc., which was merged with Color Imaging. Since 1984, Mr. Wang has served as President of General Plastic Industrial Co. Ltd (GPI), a Taiwan-based plastics manufacturer

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specializing in injection moldings and more particularly toner cartridges and accessories for copiers and laser printers. In 1998, Mr. Wang was a founding member of Kings Brothers LLC, which leases space to Color Imaging used for our headquarters and manufacturing facilities in Norcross, Georgia. Mr. Wang received a Master's Degree in Computer Engineering from the University of Southern California.

Jui-Kung (Elmer) Wang has served as a director of Color Imaging since September 2001. He was a founder of Color Image, Inc. in 1989 and its Chairman until its merger with Color Imaging. He is a co-founder and has served as a director of General Plastic Industrial Co., Ltd, a leading Taiwan based manufacturer of after market injection molded cartridges and accessories for copiers and laser printers since 1978. In 1998 Mr. Wang was a founding member of Kings Brothers LLC, which leases space to Color Imaging we use for our headquarters and manufacturing facilities in Norcross, Georgia. Mr. Wang has been a professor of management with Tung-Hai University, Taiwan for over 20 years. He has received a bachelor's degree in economics, and MBA and PhD degrees in management.

Victor A. Hollander, CPA, has served as a director of Color Imaging since March 2001. Mr. Hollander has been licensed to practice public accounting in California as a certified public accountant since 1958. Since February 2001, Mr. Hollander has been the manager of the securities group at Good Swartz Brown & Berns LLP, a Los Angeles - based accounting firm. From 1978 to 2001, he was a partner in the accounting firm he founded Hollander, Lumer & Co. LLP. Mr. Hollander has been involved with over twenty initial and secondary public offerings since 1990. Mr. Hollander has served on various Los Angeles Chapter, California Society of Certified Public Accounts and American Institute of Certified Public Accountants securities, ethics, accounting and auditing committees. He specializes in securities and merger and acquisition matters.

### EXECUTIVE COMPENSATION

The following Summary Compensation Table sets forth the compensation earned by our chief executive officer and the three other most highly compensated executive officers who were serving as such as of December 31, 2001 and December 31, 2000 (collectively, the Named Executive Officers), whose aggregate compensation for fiscal years 2001 and 2000 exceeded \$100,000 for services rendered in all capacities to Color Imaging and its subsidiaries for that fiscal year.

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| SUMMARY COMPENSATION TABLE                                       |      |                               |   |
|--|------|-------------------------------|---|
| NAME   | YEAR | ANNUAL COMPENSATION<br>SALARY | LONG-TERM<br>COMPENSATION               |
|  |      |                               | SECURITIES<br>UNDERLYING<br>OPTIONS (#) |
| Dr. Sueling Wang<br>President and<br>Chief Operating Officer (9) | 2001 | \$158,423                     | 100,000 (5)                             |
|  | 2000 | \$149,159                     | 200,000 (6)                             |
| Michael W. Brennan (10)<br>Chief Executive Officer               | 2001 | \$151,442                     | 150,000 (5)                             |
|  | 2000 | \$146,485                     | ---                                     |
| Morris E. Van Asperen  | 2001 | \$146,714                     | 100,000 (5)                             |

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|                                     |      |           |             |
|-------------------------------------|------|-----------|-------------|
| Executive Vice President            | 2000 | \$ 54,294 | 200,000 (7) |
| Chief Financial Officer & Secretary |      |           |             |
| Charles R. Allison                  | 2001 | \$106,379 | 50,000 (5)  |
| Vice President, Sales               | 2000 | \$101,996 | 50,000 (8)  |

- (1) For named executive officers the amount reported represents the cost of group insurance benefits, Color Imaging's matching contribution to the 401(k) plan for the officer and other life insurance policies maintained for him, as further described in the notes for each officer, respectively.
- (2) The split dollar life insurance policy is no longer in force. Premiums paid during 2000 were \$15,584.
- (3) The split dollar life insurance premiums were \$13,526 and \$16,505 during 2001 and 2000, respectively. Pursuant to the policies Color Imaging will, upon his death or earlier liquidation of each such policy, be entitled to the refund of all premium payments made by Color Imaging on the policies, and the balance of the proceeds will be paid to Mr. Wang's designated beneficiaries.
- (4) The life insurance premiums paid by Color Imaging in 2001 and 2000 were \$21,977 and \$22,476, respectively. Color Imaging owns and is the beneficiary of this policy and maintains it to fund the deferred compensation agreement with Mr. Allison. Upon Mr. Allison's retirement, he, or his beneficiaries, are to receive 120 monthly payments of \$2,500 per month or, as provided, the net present value of any unpaid amounts.
- (5) Options granted by action of the board of directors on March 21, 2001. 25% vest upon grant and the balance vest 25% per year upon each anniversary of the date of grant. The options expire five years after their respective vesting date(s).
- (6) The options were granted as part of the officer's employment agreement on June 28, 2000. 100,000 vested immediately and the remainder vested ratably over the next two years upon the anniversary date of the grant.
- (7) The options were granted as part of the officer's employment agreement on June 28, 2000. 100,000 vested immediately and the remainder vested ratably over the next four years upon the anniversary date of the grant. Mr. Van Asperen joined Color Imaging as Executive Vice President in August 2001.
- (8) The options were granted as part of the officer's employment agreement on June 28, 2000. 25,000 vested immediately and the remainder vested ratably over the next two years upon the anniversary date of the grant.
- (9) As a result of the change in Mr. Brennan's position, Dr. Wang is the principal executive officer of Color Imaging, and continues to serve as President and Vice Chairman of the Color Imaging, Inc. See "Recent Development" on page. 15.
- (10) On June 10, 2002, Mr. Brennan was replaced as Chairman and Chief Executive Officer of Color Imaging, Inc. and continues as Chairman and Chief Executive Officer of Logical Imaging Solutions, Inc. See "Recent Development" on page 15.

## OPTION GRANTS TABLE

The following table sets forth certain information regarding options granted to the Named Executive Officers during the year ended December 31, 2001.

### STOCK OPTION GRANTS IN LAST FISCAL YEAR

| NUMBER OF<br>SECURITIES<br>UNDERLYING<br>OPTIONS | PERCENT OF<br>TOTAL<br>OPTIONS<br>GRANTED TO | EXERCISE<br>OR BASE |
|--|--|---------------------|
|--|--|---------------------|

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| Name                  | GRANTED<br>(#) (1)                                       | EMPLOYEE<br>IN 2001 | PRICE<br>(\$/SH) |
|-----------------------|--|---------------------|------------------|
| Sueling Wang          | 25,000<br>25,000<br>25,000<br>25,000<br>-----<br>100,000 | 19%                 | \$ 2.75          |
|                       | 26   |                     |                  |
| Michael W. Brennan    | 37,500<br>37,500<br>37,500<br>37,500<br>-----<br>150,000 | 28%                 | \$ 2.75          |
| Morris E. Van Asperen | 25,000<br>25,000<br>25,000<br>25,000<br>-----<br>100,000 | 19%                 | \$ 2.75          |
| Charles R. Allison    | 12,500<br>12,500<br>12,500<br>12,500<br>-----<br>50,000  | 9%                  | \$ 2.75          |

(1) The above options were granted on March 21, 2001, become fully vested after three years and expire five years, respectively, from the vesting date(s).

## OPTION EXERCISES AND YEAR-END VALUE TABLE

None of the Named Executive Officers exercised stock options during 2001. The following table sets forth certain information regarding unexercised options held at year-end by each of the Named Executive Officers.

## AGGREGATED OPTION EXERCISES IN 2001 AND OPTION VALUES AT DECEMBER 31, 2001

SHARES  
ACQUIRED

VALUE

NUMBER OF SECUR  
UNDERLYING UNEXE  
OPTIONS

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| NAME                  | ON EXERCISE | REALIZED | EXERCISABLE |
|-----------------------|-------------|----------|-------------|
| Sueling Wang          | 0           | 0        | 175,000     |
| Michael W. Brennan    | 0           | 0        | 37,500      |
| Morris E. Van Asperen | 0           | 0        | 150,000     |
| Charles R. Allison    | 0           | 0        | 50,000      |

AGGREGATED OPTION EXERCISES IN 2001 AND OPTION VALUES AT DECEMBER 31, 2001

| NAME                  | VALUE OF UNEXERCISED<br>IN-THE-MONEY<br>OPTIONS (\$) (1) |               |
|-----------------------|--|---------------|
|                       | EXERCISABLE  | UNEXERCISABLE |
| Sueling Wang          | 173,750  | 81,250        |
| Michael W. Brennan    | 13,125   | 39,375        |
| Morris E. Van Asperen | 146,250  | 108,750       |
| Charles R. Allison    | 45,625   | 26,875        |

(1) Based on the closing price of our common stock of \$3.10 on December 28, 2001.

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## EMPLOYMENT AGREEMENTS

On June 28, 2000, we entered into employment agreements with Michael W. Brennan, Dr. Sueiling Wang, Morris E. Van Asperen, and Charles R. Allison. Each of these employment agreements has a 5 year term. We are obligated to pay Mr. Brennan and Dr. Wang annual salaries of \$150,000 each with a guaranteed increase of 5% per annum over the term of the agreements. We are obligated to pay Mr. Van Asperen an annual salary of \$144,000 with a guaranteed increase of 5% per annum over the term of his agreement. In addition to commissions earned under our sales incentive program, we are obligated to pay Mr. Allison an annual salary of \$89,250 with a guaranteed increase of 5% per annum over the term of his agreement. Each employee may terminate the agreement upon 6 months notice to us. We may terminate each employee upon 6 months notice, provided, however, that we are obligated to pay to the employee his annual base salary, commissions or bonuses earned, and benefits for a period of 12 months after the date of such notice. On June 10, 2002, the term of Mr. Brennan's agreement was amended to expire on June 10, 2003 and his compensation and benefits were fixed at their current levels.

The employment agreements with the above named officers also commit us to purchasing for their benefit certain life insurance plans. For the year ended December 31, 2001, we did not have in place for either Mr. Brennan or Mr. Van Asperen such supplemental life insurance plans. We are the owners of as well as the beneficiary of a life insurance policy on Mr. Allison and we maintain it to fund the deferred compensation agreement with Mr. Allison. Upon Mr. Allison's



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retirement, he, or his beneficiaries, are to receive 120 monthly payments of \$ \$2,500 per month or, as provided, the net present value of any unpaid amounts. The life insurance premiums paid by us to fund Mr. Allison's deferred compensation agreement in 2001 and 2000 were \$21,977 and \$11,238, respectively. We pay the premiums and we are the collateral assignee of four split dollar life insurance policies owned by Dr. Wang. Pursuant to the policies we will, upon his death or earlier liquidation of each such policy, be entitled to the refund of all premium payments made by us on the policies, and the balance of the proceeds will be paid to Mr. Wang's designated beneficiaries. The split dollar life insurance premiums were \$13,526 and \$8,253 during 2001 and 2000, respectively. The monies due from Dr. Wang in connection with these life insurance policies at the years ended December 31, 2001 and 2000 was \$112,103 and \$98,578, respectively.

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### SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth information known to Color Imaging with respect to the beneficial ownership of Color Imaging's common stock as of July 8, 2002 by:

- o each stockholder known by Color Imaging to own beneficially more than 5% of Color Imaging's common stock;
- o each Named Executive Officer;
- o each of Color Imaging's directors; and
- o all directors and executive officers as a group.

Except as otherwise indicated in the footnotes, Color Imaging believes that the beneficial owners of the common stock listed below, have sole voting power and investment power with respect to such shares of common stock indicated. In computing the number of shares beneficially owned by a person and the percent ownership of that person, shares of common stock subject to options or warrants held by that person that are currently exercisable or will become exercisable within 60 days of the date of this prospectus are deemed outstanding, while such shares are not deemed outstanding for purposes of computing percent ownership of any other person.

| NAME OF BENEFICIAL OWNER         | NO. OF SHARES | PERCENTAGE OF OWNERSHIP (1) |
|----------------------------------|---------------|-----------------------------|
| Sueling Wang (2)                 | 1,956,551     | 18.9%                       |
| Morris E. Van Asperen (3)        | 310,906       | 3.0%                        |
| Charles R. Allison (4)           | 75,000        | *                           |
| Michael W. Brennan (5)           | 999,215       | 9.8%                        |
| Edwin St. Amour (6)              | 989,768       | 9.8%                        |
| Robert L. Langsam (7)            | 143,632       | 1.5%                        |
| Jui-Chi Wang (8)                 | 689,450       | 6.8%                        |
| Jui-Hung Wang                    | 699,178       | 6.9%                        |
| Jui-Kung Wang                    | 316,209       | 3.1%                        |
| Victor A. Hollander (9)          | 105,000       | 1.0%                        |
| James F. Telsey (10)             | 25,000        | *                           |
| Executive officers and directors |               |                             |

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|                              |           |       |
|------------------------------|-----------|-------|
| as a group (11 persons) (11) | 6,314,909 | 58.0% |
| -----                        |           |       |
| * Less than 1%               |           |       |

- (1) Percentage of ownership is calculated as required by Commission Rule 13d-3(d)(1). The table above includes the number of shares underlying options and warrants which are exercisable within 60 days after the date of this proxy statement.
- (2) Includes: (a) 600,000 shares owned by Sueling Wang's four children, (b) 141,204 shares owned by Yik-Li Sih, Sueling Wang's wife, in which Dr. Wang may be deemed to have pecuniary interest. Dr. Wang disclaims beneficial ownership of such 201,204 shares. Also includes 250,000 shares subject to options that are currently exercisable.
- (3) Includes 200,000 shares subject to options that are currently exercisable.
- (4) Includes 75,000 shares subject to options that are currently exercisable.
- (5) Includes 75,000 shares subject to options that are currently exercisable.
- (6) Edwin St. Amour holds 979,768 shares as co-trustee (Mr. St. Amour's wife Annette is the other co-trustee) of the St. Amour Revocable Trust. Also includes 10,000 shares subject to options that are currently exercisable.
- (7) Includes 10,000 shares subject to options and 55,453 shares underlying warrants that are currently exercisable.
- (8) Includes 10,000 subject to options that are currently exercisable.
- (9) Includes 5,000 options and 50,000 shares underlying warrants that are currently exercisable.
- (10) Includes 25,000 shares underlying options that are currently exercisable.
- (11) Includes 635,000 shares subject to options and 105,453 shares underlying warrants that are exercisable within 60 days after the date of this prospectus.

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### CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Directors, Jui-Hung Wang, Jui-Kung Wang, Sueling Wang and Jui-Chi Wang, own Kings Brothers, LLC, the landlord from which we lease our Norcross, Georgia plant. For the three months ended March 31, 2002, we paid Kings Brothers LLC \$129,621 in lease payments. For the years ended December 31, 2001 and 2000, the lease payments for the plant were \$505,836 and \$186,427, respectively. The lease was made on April 1, 1999 and expires in April 2009.

On November 19, 2001, we borrowed \$200,000 on an unsecured basis from Kings Brothers LLC. The revolving loan bears interest at the rate of 9% per annum, matures on November 18, 2002 and is evidenced in writing. We paid the principal and interest outstanding on December 10, 2001, paying \$790.38 in total interest to Kings Brothers. We borrowed this amount for general corporate purposes, including working capital. On March 20, 2002 the revolving loan arrangement was cancelled.

We also had a short-term unsecured loan, due July 26, 2000, evidenced in writing from Kings Brothers of \$240,000 with interest at 8%, paying \$5,576 of interest for the year. As of December 31, 2000, all amounts outstanding under the loan were repaid. We used the proceeds of this loan for working capital.

On June 1, 1999, the Development Authority of Gwinnett County, Georgia issued \$4,100,000 of industrial development revenue bonds on behalf of us and Kings Brothers LLC. Pursuant to a certain joint debtor agreement we are jointly and severally liable with Kings Brothers to pay the amounts borrowed under the bond. The 3.5% revenue bonds are payable in varying annual principal and monthly

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interest payments through July 2019. The bonds are collateralized by all of our assets and the real property leased by us and owned by Kings Brothers. The majority of the proceeds \$3,125,872 from the bond issue were used by us to relocate our manufacturing plant, make leasehold improvements at the new facility and to purchase certain manufacturing equipment. The remaining proceeds \$974,128 were used by Kings Brothers to pay down the mortgage on its real property, some of which is leased to us. The proceeds used by Kings Brothers have been recorded as a receivable on our financial statements. We entered into a Joint Debtor Agreement with Kings Brothers LLC concerning their rights, duties and obligations in connection with the bonds. Kings Brothers and we, collectively, are obligated to repay any outstanding debt under the bonds. Amounts receivable from Kings Brothers are secured by a lien on all of Kings Brothers' real estate, including the part we lease from them, and by personal guarantees by the members of Kings Brothers. No principal payments were due for the three months ended March 31, 2002, while interest due and paid by Kings Brothers for the three months ended March 31, 2002 was \$3,470. Principal due and paid by Kings Brothers to us during the years ending December 31, 2001 and 2002 was \$76,032 and \$0, respectively. Interest due and paid by Kings Brothers to us during the years ending December 31, 2001 and 2000 was \$30,368 and \$22,255, respectively. As of March 31, 2002, the principal outstanding was \$3,780,000 and the portion due to us from Kings Brothers was \$898,096.

Directors Jui-Hung Wang, Jui-Kung Wang, Jui-Chi Wang, are owners in and Chairman, Auditor and President, respectively, of General Plastic Industrial Co., LTD (GPI), a Taiwanese manufacturer of injection molded cartridges and accessories for copiers and laser printers. GPI also owned and operated GPI-USA, Inc. (GPI-USA) a wholly-owned United States distributor of GPI's products. For the three months ended March 31, 2002, we purchased \$433,679 of injected molded products from GPI. In 2001, we purchased \$4,005,508 of copier and laser printer products from GPI for resale. In 2000, we purchased from GPI and GPI-USA \$268,966 and \$166,526, respectively, of copier and laser printer products.

Directors, Jui-Hung Wang, Jui-Kung Wang, Sueling Wang and Jui-Chi J. Wang, collectively have beneficial ownership interests of 32.6% in AccuRec, LLC, a distributor of digital versatile disks. From time to time during the year ending December 31, 2000, we had short-term unsecured loans evidenced in writing and due on demand issued to AccuRec aggregating \$1,850,000 and a maximum outstanding at any one time of \$500,000. The interest rate on these loans was 8%, and we paid a total of \$6,244 in interest during 2000. As of December 31, 2000 all amounts outstanding under such loans were repaid. We used the proceeds from these loans for working capital purposes.

Director, Sueling Wang, as trustee for two of his children, loaned us a total of \$252,000 from 1998 to 1999 at an interest rate of 12% with principal and interest due at expiry. Each of the loans was paid in full during July 2000, and we paid interest in the aggregate amount of \$47,205 on these loans. We used the proceeds of this loan for working capital purposes.

On March 14, 2002, we borrowed \$500,000 from director, Sueling Wang, on an unsecured basis. The loan bears interest at the rate of 12% per annum, matures on March 14, 2003 and is evidenced in writing. We borrowed this amount to meet a supplier commitment for product. As of March 31, 2002, interest accrued and unpaid on the note was \$2,795, and \$500,000 was the outstanding principal balance. We anticipate borrowing up to another \$500,000 from Dr. Wang on like terms.

Directors Jui-Chi Wang and Jui-Hung Wang purchased 350,000 and 50,000 Units (each Unit consisted of one share of common stock and a warrant to purchase one share of common stock at an exercise price of \$2.00 per share) for \$700,000 and \$100,000, including promissory notes, respectively. Jui-Chi Wang's \$700,000 recourse promissory note without interest was made on December 1, 2001, due December 31, 2001 and paid in full on December 18, 2001. Jui-Hung Wang's \$99,500

recourse promissory note without interest was made on December 24, 2001, due April 1, 2002 and paid in full on January 30, 2002. The terms of the notes were consistent with the terms of notes of third parties who purchased Units in the private placement from Color Imaging.

We believe that the terms of the loans and borrowings from affiliates were on terms more favorable than were otherwise available from third parties.

#### DESCRIPTION OF SECURITIES

Our articles of incorporation authorize the issuance of up to 20,000,000 shares of common stock, \$0.01 par value per share. As of March 31, 2002, 10,099,880 shares of our common stock are issued and outstanding. Our articles of incorporation also authorize the issuance of up to 1,000,000 shares of preferred stock, \$0.01 par value per share. As of the date of this prospectus, we have no issued and outstanding preferred stock, and we currently have no plans to issue any shares of preferred stock. The board of directors does, however, have the authority, without action by the stockholders, to issue all or any portion of the authorized but unissued preferred stock in one or more series and to determine the voting rights, preferences as to dividends and liquidation, conversion rights, and other rights of such series. Such preferred stock, if and when issued, may carry rights superior to those of the common stock.

On all matters submitted to a vote of the stockholders, each holder of common stock has the right to one vote for each share held of record. Subject to any dividend preferences granted to any preferred stock that may be outstanding in the future, holders of our common stock are entitled to receive ratably such dividends as may be declared by the board of directors. In the event of a liquidation, dissolution or winding up of our company, holders of our common stock are entitled to share ratably in all assets remaining after payment of liabilities and the liquidation preferences of any outstanding shares of preferred stock. Holders of our common stock have no preemptive rights and no right to convert their common stock into any other securities. There are no redemption or sinking fund provisions applicable to our common stock.

#### CHARTER PROVISIONS AND DELAWARE LAWS THAT MAY HAVE AN ANTI-TAKEOVER EFFECT

Some provisions of Delaware law and our amended and restated certificate of incorporation and bylaws could make the following more difficult:

- o acquisition of us by means of a tender offer;
- o acquisition of us by means of a proxy contest or otherwise; or
- o removal of our incumbent officers and directors.

These provisions, summarized below, are expected to discourage coercive takeover practices and inadequate takeover bids. These provisions are also designed to encourage persons seeking to acquire control of us to first negotiate with our Board of Directors. We believe that the benefits of increased protection of our potential ability to negotiate with the proponent of an unfriendly or unsolicited proposal to acquire or restructure us outweigh the disadvantages of discouraging such proposals because negotiation of such proposals could result in an improvement of their terms.

Delaware Anti-Takeover Law. We are subject to Section 203 of the Delaware General Corporation Law, an anti-takeover law. In general, Section 203 prohibits

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a publicly held Delaware corporation from engaging in a "business combination" with an "interested stockholder" for a period of three years following the date the person became an interested stockholder, unless the "business combination" or the transaction in which the person became an interested stockholder is approved in a prescribed manner. Generally, a "business combination" includes a merger, asset or stock sale, or other transaction resulting in a financial benefit to the interested stockholder. Generally, an "interested stockholder" is a person who, together with affiliates and associates, owns or within three years prior to the determination of interested stockholder status, did own, 15% or more of a corporation's voting stock. The existence of this provision may have an anti-takeover effect with respect to transactions not approved in advance by the Board of Directors, including discouraging attempts that might result in a premium over the market price for the shares of common stock held by stockholders.

**Elimination of Cumulative Voting.** Our amended and restated certificate of incorporation and bylaws do not provide for cumulative voting in the election of directors. Cumulative voting provides for a minority stockholder to vote a portion or all of its shares for one or more candidates for seats on the Board of Directors. Without cumulative voting, a minority stockholder will not be able to gain as many seats on our Board of Directors based on the number of shares of our stock that such stockholder holds than if cumulative voting were permitted. The elimination of cumulative voting makes it more difficult for a minority stockholder to gain a seat on our Board of Directors and to influence the Board of Directors' decision regarding a takeover.

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**Undesignated Preferred Stock.** The authorization of undesignated preferred stock makes it possible for the Board of Directors to issue preferred stock with voting or other rights or preferences that could impede the success of any attempt to change the control of our company. These and other provisions may have the effect of deterring hostile takeovers or delaying changes in control or management of our company.

### TRANSFER AGENT

The transfer agent and registrar for our common stock is American Stock Transfer and Trust Company, Brooklyn, New York.

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### SELLING STOCKHOLDERS

The shares set forth in the table below are being offered by the selling stockholders listed below. We have registered these shares for the selling stockholders in this offering because of registration rights we granted to the selling stockholders when we sold our common stock to them. Some of the common stock listed in the table is not presently owned by the selling stockholders, but is issuable upon exercise of warrants. The selling stockholders are not required to sell all or any of the common stock. We believe that the registration of the shares underlying the warrants, even though we may not be obligated to do so, will encourage the warrant holders to exercise the warrants, thereby benefiting us because we will receive the exercise price paid.

The following table states the name of each of the selling stockholders, states the number of shares of our common stock beneficially owned by each selling stockholder as of June 19, 2002, number of shares which may be sold for the account of each selling stockholder, the number of shares of common stock that

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will be beneficially owned by each selling stockholder after the completion of the offering assuming the sale of all shares offered, and the percentage of Color Imaging common stock owned by each selling stockholder after the completion of the offering, assuming the sale of all shares offered.

| NAME   | SHARES OWNED<br>BEFORE OFFERING (1) | SHARES TO BE<br>SOLD IN OFFERING | BENEF<br>AFTER<br>-----<br>SHARES |
|--|-------------------------------------|----------------------------------|-----------------------------------|
| The Blaine Group, Inc. (3).....                                      | 10,000                              | 10,000                           | 0                                 |
| Sueling Wang (4).....  | 1,815,347                           | 856,847                          | 958,500                           |
| Gerald M. Chizever (5).....  | 45,000                              | 45,000                           | 0                                 |
| Allan Duboff (6).....  | 10,000                              | 10,000                           | 0                                 |
| Kresimir Peharda (7).....  | 5,455                               | 5,455                            | 0                                 |
| Fredric N. Richman (8).....  | 25,000                              | 25,000                           | 0                                 |
| Yik-Li Sih (9).....  | 141,204                             | 95,204                           | 46,000                            |
| Sal G. Giacinto (10).....  | 15,000                              | 15,000                           | 0                                 |
| Patrick D. Salas (11).....   | 15,000                              | 15,000                           | 0                                 |
| Brian N. Hollander (12).....   | 20,000                              | 20,000                           | 0                                 |
| Howard Kaufman (13).....   | 2,629                               | 2,000                            | 629                               |
| Jui-Chi Wang (14).....   | 689,450                             | 618,835                          | 70,615                            |
| Maynard Hollander (15).....  | 50,000                              | 50,000                           | 0                                 |
| Shobha Patel (16).....   | 12,260                              | 7,260                            | 5,000                             |
| Mark Edward Palmer (17).....   | 9,000                               | 9,000                            | 0                                 |
| Victor A. Hollander (18).....  | 105,000                             | 100,000                          | 5,000                             |
| Jui-Hung Wang (19).....  | 704,178                             | 563,173                          | 141,005                           |
| Chechang Yeh.....  | 445,205                             | 145,205                          | 300,000                           |
| Jui-Kung Wang.....   | 316,209                             | 120,204                          | 196,005                           |
| Burns Hoffman (20).....  | 200,000                             | 200,000                          | 0                                 |
| Doug Casey (21).....   | 100,000                             | 100,000                          | 0                                 |
| Morris H. Wolf (22).....   | 25,000                              | 25,000                           | 0                                 |
| Arash Khalili (23).....  | 2,000                               | 2,000                            | 0                                 |
| Howard N. Addison (24).....  | 30,000                              | 30,000                           | 0                                 |
| Neal McNally (25).....   | 25,000                              | 25,000                           | 0                                 |
| Carl H. Spatz (26).....  | 8,697                               | 5,000                            | 3,697                             |
| Lancing Holdings Ltd. (27).....                                      | 40,000                              | 40,000                           | 0                                 |
| Thomas D. Hesselbrock (28).....                                      | 8,697                               | 5,000                            | 3,697                             |
| Lionel Brown (29).....   | 25,000                              | 25,000                           | 0                                 |
| Flora Chung (30).....  | 8,529                               | 3,529                            | 5,000                             |
| Chia-An L. Shieh (31).....   | 17,196                              | 7,058                            | 10,138                            |
| John G. Myers (32).....  | 58,951                              | 58,951                           | 0                                 |
| Larry Gordon (33).....   | 70,886                              | 70,886                           | 0                                 |
| Stephen Chromik (34).....  | 450,000                             | 450,000                          | 0                                 |
| Colin J. Reynolds (35).....  | 10,000                              | 10,000                           | 0                                 |
| Michael Edson (36).....  | 38,880                              | 38,880                           | 0                                 |
| IndustriCorp and Co., Inc. FBO<br>David N. Kunz IRA Rollover (37)... | 50,000                              | 50,000                           | 0                                 |
| G-V Capital Corp. (38).....  | 200,000                             | 100,000                          | 100,000                           |
| Total.....   | 5,804,773                           | 3,959,487                        | 1,845,286                         |

\* Less than 1%

(1) Percentage of ownership for each holder is calculated based on 10,099,880 shares of common stock outstanding on June 19, 2002. Beneficial ownership

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is determined in accordance with the SEC Rule 13d-3 and generally includes shares over which the holder has voting or investment power, subject to community property laws. All shares of common stock obtainable upon conversion of securities or exercise of stock options or warrants (including those that are not currently exercisable but will become exercisable within 60 days hereafter) are considered to be beneficially owned by the person holding the options or warrants for computing that person's percentage, but are not treated as outstanding for computing the percentage of any other person.

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- (2) Assumes all offered Color Imaging common stock will be sold and that no additional shares of Color Imaging common stock will be issued by Color Imaging or acquired by any selling stockholder prior to the completion of the offering.
- (3) Devon Blaine is the principal and sole stockholder of the Blaine Group, Inc.
- (4) Of the 1,815,347 shares beneficially owned by Dr. Wang before the offering, Dr. Wang owns directly 965,347 shares of our common stock. Also included in this total are 600,000 shares owned by Dr. Wang's four children and Dr. Wang's exercisable options to purchase 250,000 shares of our common stock. The beneficial shares owned by Dr. Wang excludes 141,204 shares of common stock beneficially owned by his wife, Yik-Li Sih, who is a selling stockholder. Of the 965,347 shares of common stock owned directly by Dr. Wang prior to the offering, 856,847 shares are offered hereby. Dr. Wang is a director and officer of our company.
- (5) Mr. Chizever owns directly 22,500 shares of our common stock and 22,500 warrants exercisable into shares of our common stock. All such shares and shares of our common stock issuable upon exercise of the warrants may be sold for the account of the selling stockholder. Mr. Chizever is a partner of Richman Mann Chizever Phillips & Duboff, our former legal counsel.
- (6) Mr. Duboff owns directly 5,000 shares of our common stock and 5,000 warrants exercisable into shares of our common stock. All such shares and shares of our common stock issuable upon exercise of the warrants may be sold for the account of the selling stockholder. Mr. Duboff is a partner of Richman Mann Chizever Phillips & Duboff, our former legal counsel.
- (7) Mr. Peharda owns directly 3,955 shares of our common stock and 1,500 warrants exercisable into shares of our common stock. All such shares and shares of our common stock issuable upon exercise of the warrants may be sold for the account of the selling stockholder. Mr. Peharda is an attorney at Richman Mann Chizever Phillips & Duboff, our former legal counsel.
- (8) Mr. Richman owns directly 12,500 shares of our common stock and 12,500 warrants exercisable into shares of our common stock. All such shares and shares of our common stock issuable upon exercise of the warrants may be sold for the account of the selling stockholder. Mr. Richman is a partner of Richman Mann Chizever Phillips & Duboff, our former legal counsel.
- (9) The 141,204 shares of common stock beneficially owned by Ms. Sih are not included in the totals for Dr. Sueling Wang as described in note 4 above. Of the 141,204 shares owned by Ms. Sih, 95,204 may be sold for the account of the selling stockholder.
- (10) Mr. Giacinto owns directly 7,500 shares of our common stock and 7,500 warrants exercisable into shares of our common stock. All such shares and

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shares of our common stock issuable upon exercise of the warrants may be sold for the account of the selling stockholder.

- (11) Mr. Salas owns directly 7,500 shares of our common stock and 7,500 warrants exercisable into shares of our common stock. All such shares and shares of our common stock issuable upon exercise of the warrants may be sold for the account of the selling stockholder.
- (12) Mr. Hollander owns directly 10,000 shares of our common stock and 10,000 warrants exercisable into shares of our common stock. All such shares and shares of our common stock issuable upon exercise of the warrants may be sold for the account of the selling stockholder.
- (13) Mr. Kaufman owns directly 2,629 shares of our common stock and warrants exercisable into shares of our common stock. Of the 2,629 shares of our common stock owned directly by Mr. Kaufman, 1,629 shares and 1,000 shares of our common stock issuable upon exercise of the warrants may be sold for the account of the selling stockholder.
- (14) Of the 689,450 shares owned before the offering, Mr. Wang owns directly 679,450 shares of our common stock and has exercisable options to purchase another 10,000 shares of our common stock. Of the 679,450 shares of our common stock owned directly by Mr. Wang, 618,835 are offered in this prospectus. Mr. Wang is one of our directors.
- (15) Mr. Hollander owns directly 25,000 shares of our common stock and 25,000 warrants exercisable into shares of our common stock. All such shares and shares of our common stock issuable upon exercise of the warrants may be sold for the account of the selling stockholder.
- (16) Of the 12,260 shares owned by Ms. Patel before the offering, Ms. Patel owns directly 7,260 shares of our common stock and has exercisable options to purchase another 5,000 shares of our common stock. Of the 7,260 shares of our common stock owned directly by Ms. Patel, all 7,260 are included in this prospectus. Ms. Patel is one of our managers.

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- (17) Mr. Palmer owns directly 4,500 shares of our common stock and 4,500 warrants exercisable into shares of our common stock. All such shares and shares of our common stock issuable upon exercise of the warrants may be sold for the account of the selling stockholder.
- (18) Of the 105,000 shares owned by Mr. Hollander before the offering, Mr. Hollander owns directly 50,000 shares of our common stock, 50,000 warrants exercisable into shares of our common stock and 5,000 exercisable options to purchase shares of common stock. Of the 105,000 shares owned by Mr. Hollander, the 50,000 shares and 50,000 shares issuable upon exercise of the 50,000 warrants are offered in this prospectus. Mr. Hollander is one of our directors.
- (19) Of the 704,178 shares owned before the offering by Mr. Wang, 699,178 shares are owned directly and Mr. Wang has exercisable options to purchase another 5,000 shares of our common stock. Of the 699,178 shares owned directly by Mr. Wang, 563,173 are offered in this prospectus and may be sold for the account of the selling stockholder. Mr. Wang is one of our directors.
- (20) Mr. Hoffman owns directly 100,000 shares of our common stock and 100,000 warrants exercisable into shares of our common stock. All such shares and shares of our common stock issuable upon exercise of the warrants may be sold for the account of the selling stockholder.



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- (21) Mr. Casey owns directly 50,000 shares of our common stock and 50,000 warrants exercisable into shares of our common stock. All such shares and shares of our common stock issuable upon exercise of the warrants may be sold for the account of the selling stockholder.
- (22) Mr. Wolf owns directly 12,500 shares of our common stock and 12,500 warrants exercisable into shares of our common stock. All such shares and shares of our common stock issuable upon exercise of the warrants may be sold for the account of the selling stockholder.
- (23) Mr. Khalili owns directly 1,000 shares of our common stock and 1,000 warrants exercisable into shares of our common stock. All such shares and shares of our common stock issuable upon exercise of the warrants may be sold for the account of the selling stockholder.
- (24) Mr. Addison owns directly 15,000 shares of our common stock and 15,000 warrants exercisable into shares of our common stock. All such shares and shares of our common stock issuable upon exercise of the warrants may be sold for the account of the selling stockholder.
- (25) Mr. McNally owns directly 12,500 shares of our common stock and 12,500 warrants exercisable into shares of our common stock. All such shares and shares of our common stock issuable upon exercise of the warrants may be sold for the account of the selling stockholder.
- (26) Mr. Spatz owns directly 6,197 shares of our common stock. Of the 6,197 shares of our common stock owned by Mr. Spatz, 5,000 are included in this prospectus and consist of 2,500 shares of our common stock and 2,500 shares of our common stock issuable upon exercise of warrants to purchase our common stock, all of which may be sold for the account of the selling stockholder.
- (27) Lancing Holdings Ltd. owns directly 20,000 shares of our common stock and 20,000 warrants exercisable into shares of our common stock. All such shares and shares of our common stock issuable upon exercise of the warrants may be sold for the account of the selling stockholder. John Nichols is the principal and beneficial owner of Lancing Holdings Ltd.
- (28) Mr. Hesselbrook owns directly 6,197 shares of our common stock of which 5,000 shares may be sold for the account of the selling stockholder. Total shares owned before the offering includes 2,500 shares of common stock underlying warrants to purchase common stock.
- (29) Mr. Brown owns directly 12,500 shares of our common stock and 12,500 warrants exercisable into shares of our common stock. All such shares and shares of our common stock issuable upon exercise of the warrants may be sold for the account of the selling stockholder.
- (30) Of the 8,529 shares owned by Flora Chung before the offering, Ms. Chung owns directly 3,529 shares of our common stock and has exercisable options to purchase another 5,000 shares of our common stock. Of the 3,529 shares owned directly by Ms. Chung, all are offered in this prospectus. Ms. Chung is our accounting manager.
- (31) Of the 17,196 shares owed by Ms. Shieh before the offering, Ms. Shieh owns directly 7,058 shares of our common stock and has exercisable options to purchase 5,000 shares of our common stock. Also included in the shares owned by Ms. Shieh before the offering are 5,138 shares of our common stock owned by Ms. Shieh's spouse, Shiuh An Shieh. Of the 7,058 shares owned directly by Ms. Shieh, all 7,058 are offered in this prospectus. Ms. Shieh is our controller and an assistant secretary.

- (32) Includes 58,951 warrants exercisable into shares of our common stock. All such shares of our common stock issuable upon exercise of the warrants may be sold for the account of the selling stockholder.
- (33) Includes 70,886 warrants exercisable into shares of our common stock. All such shares of our common stock issuable upon exercise of the warrants may be sold for the account of the selling stockholder.
- (34) Mr. Chromik owns directly 150,000 shares of our common stock and 300,000 warrants exercisable into shares of our common stock. All such shares and shares of our common stock issuable upon exercise of the warrants may be sold for the account of the selling stockholder.
- (35) Mr. Reynolds owns directly 5,000 shares of our common stock and 5,000 warrants exercisable into shares of our common stock. All such shares and shares of our common stock issuable upon exercise of the warrants may be sold for the account of the selling stockholder.
- (36) Mr. Edson owns directly 12,960 shares of our common stock and 25,920 warrants exercisable into shares of our common stock. All such shares and shares of our common stock issuable upon exercise of the warrants may be sold for the account of the selling stockholder.
- (37) Mr. Kunz IRA owns directly 25,000 shares of our common stock and 25,000 warrants exercisable into shares of our common stock. All such shares and shares of our common stock issuable upon exercise of the warrants may be sold for the account of the selling stockholder.
- (38) G-V Capital Corp. owns directly 100,000 shares of our common stock and 100,000 warrants exercisable into shares of our common stock. G-V Capital Corp. was our investment banking advisors for our merger with Color Image, Inc. and Logical Imaging Solutions, Inc., and they received their shares and exercisable warrants in return for their services rendered to us from January through June 2000 at the completion of the merger in June 2000. 100,000 shares of our common stock issuable upon exercise of the warrants may be sold for the account of the selling stockholder. Lawrence E. Kaplan is the principal and beneficial owner of G-V Capital Corp.

#### PLAN OF DISTRIBUTION

##### SHARES OFFERED BY COLOR IMAGING, INC.

The shares of common stock are being offered by us on a best efforts basis with respect to the 7,000,000 shares, which will be made available to the public at \$\_\_\_\_\_ per share, the average of the closing prices of our common stock for the 15 trading days prior to the effective date of this offering. No one has committed to purchase any of the shares offered. We will allow our directors, officers and affiliates of us to purchase up to \$7,000,000 of the shares offered in this offering. There can be no assurance that any or all of the shares being offered will be sold. No commissions or other fees will be paid, directly or indirectly, by us to any person or firm in connection with solicitation of sales of the shares. We have not, and do not intend to establish a maximum number of shares that can be purchased by each investor in the offering. We will require investors to purchase at least 100,000 shares.

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Our officers and directors will offer and sell the shares of common stock directly to investors in specific states in which these securities are registered or are exempt from registration, following the procedures for subscribing as outlined herein and in compliance with Regulation M, promulgated under the Securities Exchange Act. Color Imaging does not plan to use the Internet to offer its securities.

Since the offering is self-underwritten, we will distribute this prospectus to potential investors with whom management is acquainted who may be or who are interested in us and a possible investment in the offering. Since a substantial minimum investment is required to subscribe to our offering, it is contemplated that some investor(s), particularly individual investors, may need several months to either make an investment decision, obtain the necessary liquidity or to advantageously time the investment. Officers and directors will not receive any commission from the sale of any shares of common stock. Officers and directors will not register as broker-dealers pursuant to Section 15 of the Securities and Exchange Act of 1934 in reliance upon Rule 3a4-1, which sets forth those conditions under which a person associated with an issuer may participate in the offering of the issuer's securities and not be deemed to be a broker-dealer. These conditions include the following:

- o None of the selling persons are subject to a statutory disqualification, as that term is defined in Section 3(a)(39) of the Exchange Act, at the time of participation;
- o None of such persons are compensated in connection with his or her participation by the payment of commissions or other remuneration based either directly or indirectly on transactions in securities;
- o None of the selling persons are, at the time of participation, an associated person of a broker-dealer; and
- o All of the selling persons meet the conditions of paragraph (a)(4)(ii) of Rule 3a4-1 of the Exchange Act, in that they:
  - o primarily perform or are intending primarily to perform at the end of the offering, substantial duties for or on behalf of the issuer otherwise than in connection with transactions in securities; and
  - o are not a broker or dealer, or an associated person of a broker or dealer, within the preceding twelve months; and
  - o do not participate in selling and offering of securities for any issuer more than once every twelve months other than in reliance on this rule.

This offering will commence on the date of this prospectus and continue until December 31, 2002, unless we sell all our common stock prior to that date. We may terminate this offering at any time, for any reason; thus not selling any or all of the shares of common stock offered. There is no minimum number of shares of common stock that we are required to sell. In addition, if any shares of common stock offered for sale pursuant to this prospectus are transferred for value, subsequent holders cannot use this prospectus until a prospectus supplement or post-effective amendment naming such holders is filed, if required.

### SUBSCRIPTION PROCEDURE

If you decide to subscribe for shares of common stock in this offering, you will be required to execute a subscription agreement and tender it, together with a check or wired funds to us, for acceptance or rejection. A copy of the form of

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the subscription agreement is attached hereto as Exhibit A. You may subscribe for the minimum number or more of our shares of common stock in this offering. All checks should be made payable to Color Imaging, Inc. We may not accept a subscription for shares of common stock until at least five business days after the date you receive this prospectus. We have the right to accept or reject subscriptions in whole or in part, for any reason or for no reason. All monies from rejected subscriptions will be returned immediately by us to the subscriber, without interest or deductions.

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Subscriptions for our shares will be accepted or rejected promptly. Once accepted, the funds will be deposited in an account maintained by us and considered assets of Color Imaging once cleared by our bank. Subscription funds will not be deposited in an escrow account. We will immediately use all of the proceeds received from the sale of shares of common stock. The proceeds shall be non-refundable except as required by law. Certificates for the purchase of our shares will be issued and distributed by our transfer agent, within a reasonable time after a subscription is accepted and "good funds" are received in our account. Certificates will be sent to the address supplied in the investor's subscription agreement.

### SELLING STOCKHOLDERS

We are registering the sale of the common stock and common stock underlying warrants on behalf of the selling stockholders, who are free to offer and sell our stock at such times, in such manner and at such prices as they may determine. We will pay the costs of registering the sales of our stock. Our common stock may be offered by the selling stockholders in one or more types of transactions, which may or may not involve brokers, dealers or cash transactions. The selling stockholders may also use Rule 144 under the Securities Act to sell our stock, if they meet the criteria and conform to the requirements of that rule. There is no underwriter or coordinating broker acting in connection with the proposed sale of our stock by the selling stockholders. The sales of our stock may also be effected from time to time by the following means:

- o transactions on the OTC Bulletin Board at market price through ordinary broker transactions, including block transactions;
- o negotiated transactions; or,
- o a combination of the above methods of sale at fixed prices, which may be changed, at market prices prevailing at the time of sale, or at negotiated prices

The selling stockholders may sell common stock directly to purchasers or through broker-dealers which may act as agents or principals. Broker-dealers may receive compensation in the form of discounts, concessions or commissions from the selling stockholders.

The selling stockholders and any broker-dealers that act in connection with the sale of our common stock may be deemed to be underwriters within the meaning of Section 2(11) of the Securities Act, and any commissions received by them and any profit on the resale of our stock as principal may be deemed to be underwriting discounts and commissions under the Securities Act. The selling stockholders may agree to indemnify any agent, dealer commissions or broker-dealer that participates in transactions involving sales of our stock against certain liabilities, including liabilities arising under the Securities Act.

Because the selling stockholders may be deemed to be underwriters, they will be

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subject to prospectus delivery requirements under the Securities Act. Furthermore, in the event of a distribution of our stock, the selling stockholders, any selling broker-dealer and any affiliated purchasers may be subject to Regulation M, which prohibits any stabilizing bid or stabilizing purchase for the purpose of pegging, fixing or stabilizing the price of our common stock in connection with that distribution. As used herein, selling stockholders, includes donees and pledgees selling our shares from a named selling stockholder after the date of this prospectus.

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### LEGAL MATTERS

The validity of the shares of common stock offered by this prospectus will be passed upon for Color Imaging by Arnall Golden Gregory LLP, Atlanta, Georgia.

### INDEPENDENT AUDITORS

The consolidated financial statements of Color Imaging our subsidiary as of December 31, 2001, and for each of the years in the two-year period ended December 31, 2001, included in this prospectus and elsewhere in the registration statement have been so included herein in reliance upon the report of Lazar Levine & Felix LLP, and upon the authority of said firm as experts in accounting and auditing.

### INDEMNIFICATION

Our certificate of incorporation allows us to indemnify our officers and directors to the maximum extent allowed under Delaware law. This includes indemnification for liability which could arise under the Securities Act. Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to directors, officers or persons controlling the registrant under these provisions, the registrant has been informed that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Act and is therefore unenforceable.

### FURTHER INFORMATION

You should rely only on the information in this prospectus or any prospectus supplement hereto this prospectus. We have not authorized anyone else to provide you with different information. Offers of the securities are being made only in states where the offers are permitted. You should not assume that the information in this prospectus or any prospectus supplement is accurate as of any date other than the date on the front of those documents.

This prospectus is part of a Registration Statement on Form SB-2 that has been filed with the SEC. It does not include all of the information that is in the registration statement and the additional documents filed as exhibits with it. For more detailed information, you should read the exhibits themselves.

We are subject to the informational requirements of the Exchange Act and, in accordance with it, are required to file reports, proxy and information statements, and other information with the SEC. Such reports, proxy and information statements and other information can be inspected and copied at the SEC's Public Reference Room at 450 Fifth Street, N.W., Washington, D.C. 20549. The public may obtain information about the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. We electronically file reports, proxy

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and information statements, and other information with the SEC. The SEC maintains an Internet website that contains our electronically filed reports, proxy and information statements, and other information at <http://www.sec.gov>. We maintain Internet websites at <http://www.colorimage-micr.com> and at <http://www.logical-imaging.com>. Our common stock is traded on the NASDAQ OTC Bulletin Board under the symbol CIMG.

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COLOR IMAGING, INC. AND SUBSIDIARY  
CONSOLIDATED CONDENSED BALANCE SHEETS

THREE MONTHS ENDED

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| ASSETS   |    | 31-MAR-02<br>(UNAUDITED) |
|--|----|--------------------------|
| -----  |    |                          |
| CURRENT ASSETS   |    |                          |
| Cash   | \$ | 685,386                  |
| Accounts receivable, net   |    | 3,487,226                |
| Inventory  |    | 5,814,898                |
| Deferred income taxes  |    | 244,238                  |
| Related party portion of IDR bond  |    | 79,596                   |
| Other current assets   |    | 342,264                  |
| -----  |    |                          |
| TOTAL CURRENT ASSETS   |    | 10,653,608               |
| -----  |    |                          |
| PROPERTY, PLANT AND EQUIPMENT - NET  |    | 8,585,022                |
| -----  |    |                          |
| OTHER ASSETS   |    |                          |
| Patent/intellectual property   |    | 9,326                    |
| Deferred income taxes  |    | 267,000                  |
| Related party portion of IDR bond  |    | 818,500                  |
| Other assets   |    | 224,654                  |
| -----  |    |                          |
| TOTAL OTHER ASSETS   |    | 1,319,480                |
| -----  |    |                          |
|  | \$ | 20,558,110               |
| =====  |    |                          |
| LIABILITIES & STOCKHOLDERS' EQUITY   |    |                          |
| CURRENT LIABILITIES  |    |                          |
| Revolving credit lines   | \$ | 1,431,692                |
| Accounts payable   |    | 4,909,611                |
| Current portion of notes payable   |    | 877,684                  |
| Current portion of bonds payable   |    | 335,000                  |
| Other current liabilities  |    | 408,129                  |
| -----  |    |                          |
| TOTAL CURRENT LIABILITIES  |    | 7,962,116                |
| -----  |    |                          |
| LONG TERM LIABILITIES  |    |                          |
| Notes payable  |    | 1,283,899                |
| Bonds payable  |    | 3,445,000                |
| -----  |    |                          |
| LONG TERM LIABILITIES  |    | 4,728,899                |
| -----  |    |                          |
| TOTAL LIABILITIES  |    | 12,691,015               |
| -----  |    |                          |
| COMMITMENTS & CONTINGENCIES  |    |                          |
| STOCKHOLDERS' EQUITY   |    |                          |
| Common stock, \$.01 par value, authorized 20,000,000 shares; 10,099,880 and 10,099,175 shares issued and outstanding on March 31, 2002 and December 31, 2001, respectively |    | 100,999                  |

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|                               |             |
|-------------------------------|-------------|
| Additional paid-in capital    | 9,868,283   |
| Stock subscription receivable | --          |
| Accumulated deficit           | (2,102,187) |

TOTAL STOCKHOLDERS' EQUITY

7,867,095

\$ 20,558,110

See Accompanying Notes

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## COLOR IMAGING, INC. AND SUBSIDIARY CONSOLIDATED CONDENSED STATEMENTS OF OPERATIONS FOR THE THREE MONTH PERIODS ENDED MARCH 31 (UNAUDITED)

|                                       | 2002         |    |
|---------------------------------------|--------------|----|
| SALES                                 | \$ 7,859,078 | \$ |
| COST OF SALES                         | 6,589,293    |    |
| GROSS PROFIT                          | 1,269,785    |    |
| OPERATING EXPENSES:                   |              |    |
| Administrative                        | 460,966      |    |
| Research & development                | 262,364      |    |
| Sales & marketing                     | 276,415      |    |
|                                       | 999,745      |    |
| OPERATING PROFIT                      | 270,040      |    |
| OTHER INCOME (EXPENSE) :              |              |    |
| Interest and other income             | 6,868        |    |
| Interest & financing expense          | (80,663)     |    |
| Non-recurring moving expense          | --           |    |
|                                       | (73,795)     |    |
| INCOME (LOSS) BEFORE TAXES            | 196,245      |    |
| PROVISIONS (BENEFIT) FOR INCOME TAXES | 80,006       |    |



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|                                |       |            |       |
|--------------------------------|-------|------------|-------|
| NET INCOME (LOSS)              | \$    | 116,239    | \$    |
|                                | ===== |            | ===== |
| INCOME (LOSS) PER COMMON SHARE |       |            |       |
| Basic                          | \$    | .01        | \$    |
| Diluted                        | \$    | .01        | \$    |
| COMMON SHARES OUTSTANDING      |       |            |       |
| WEIGHTED AVERAGE SHARES:       |       |            |       |
| Basic                          |       | 10,099,567 |       |
|                                | ===== |            | ===== |
| Diluted                        |       | 10,201,615 |       |
|                                | ===== |            | ===== |

See Accompanying Notes

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## COLOR IMAGING, INC. AND SUBSIDIARY CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS FOR THE THREE MONTH PERIODS ENDED MARCH 31 (UNAUDITED)

|  |            |
|--|------------|
|  | 2002       |
|  | -----      |
| Cash flows from operating activities:  |            |
| Net income   | \$ 116,239 |
| Adjustments to reconcile net income to net cash<br>provided by operating activities: |            |
| Depreciation and amortization  | 149,549    |
| Deferred income taxes  | 78,001     |
| Decrease (increase) in:  |            |
| Accounts receivable and other receivables  | (456,231)  |
| Inventories  | 241,144    |
| Prepaid expenses and other assets  | (2,573)    |
| Increase (decrease) in:  |            |
| Accounts payable and accrued liabilities   | (88,118)   |
|  | -----      |
| Net cash provided by operating activities  | 38,011     |
|  | -----      |
| Cash flows from investing activities:  |            |
| Capital expenditures   | (295,745)  |
| Other assets   | --         |
| Patents and intellectual properties  | (4,326)    |
|  | -----      |
| Net cash (used in)   |            |

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|  |            |
|--|------------|
| investing activities                                 | (300,071)  |
| Cash flows from financing activities:                |            |
| Net (payments) under line of credit                  | (30,724)   |
| Net proceeds from sale of common stock               | 143,351    |
| Proceeds from issuance of debt                       | 500,000    |
| Principal payments of long-term debt                 | (60,508)   |
| Net cash provided (utilized) by financing activities | 552,119    |
| Net increase (decrease) in cash                      | 290,059    |
| Cash at beginning of year                            | 395,327    |
| Cash at end of period                                | \$ 685,386 |

See Accompanying Notes

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## COLOR IMAGING, INC. AND SUBSIDIARY NOTES TO INTERIM CONSOLIDATED CONDENSED FINANCIAL STATEMENTS March 31, 2002 (Unaudited)

### NOTE 1. BASIS OF PRESENTATION

The accompanying unaudited interim consolidated 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-QSB. 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 months ended March 31, 2002 are not necessarily indicative of the results that may be expected for the year ended December 31, 2002.

### NOTE 2. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are stated at cost. Depreciation of the Company's property, plant, and equipment is computed using the straight-line method. The estimated useful lives are as follows:

|                         | Years   |
|-------------------------|---------|
| Leasehold improvements  | 10 - 20 |
| Machinery and equipment | 5 - 20  |
| Furniture and fixtures  | 7 - 10  |

### NOTE 3. COMMON STOCK

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From January 1, 2002 to March 31, 2002, one holder of the Company's warrants exercised 1,750 warrants on a cashless basis and was issued 705 shares of the Company's common stock. During March 2002, the Company rescinded one transaction entered into during 2001 for the sale of 25,000 shares of common stock and warrants to purchase 25,000 shares of the common stock of the Company. This transaction was retroactively reflected in the financial statements as of December 31, 2001. As of March 2002, all notes receivable from sales of Company securities have been fully paid by the investors.

On October 30, 2001, the Company issued and sold 1,000,000 shares of its common stock to one investor in exchange for \$2 million. The purchase price was \$2.00 per share, of which \$10,000 was payable in cash and \$1,990,000 was payable in the form of a recourse promissory note. The Company also agreed to issue up to 500,000 warrants exercisable at \$2.00 per share to purchase the Company's common stock. In March 2002, the Company and the investor mutually rescinded this transaction and the Company has retroactively reflected this rescission as of December 31, 2001.

### NOTE 4. INVENTORIES

Inventories consisted of the following components as of March 31, 2002 and December 31, 2001:

|                        | March 31, 2002 | December 31, 2001 |
|------------------------|----------------|-------------------|
|                        | -----          | -----             |
| Raw materials          | \$ 1,678,500   | \$ 723,480        |
| Work-in-process        | 992,586        | 967,982           |
| Finished goods         | 3,269,762      | 4,534,410         |
| Obsolescence allowance | (125,950)      | (169,830)         |
|                        | -----          | -----             |
| Total                  | \$ 5,814,898   | \$ 6,056,042      |
|                        | =====          | =====             |

### NOTE 5. CHANGES TO BORROWING ARRANGEMENTS

The Company has a \$2.5 million revolving line of credit with an outstanding balance as of March 31, 2002 of \$1,431,692. At the end of each month for the following month, the Company has the interest rate option of either the one month Libor interest rate in effect two business days before the first day of the month plus 2.50% or the Bank's prime interest rate minus 0.25%. As of March 31, 2002, the interest rate was the one month Libor rate plus 2.50% (6.87%). This revolving line of credit has a June 30, 2002 expiration date.

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### NOTE 5. CHANGES TO BORROWING ARRANGEMENTS (CONTINUED)

Under the lines of credit, the Company is permitted to borrow up to 85% of eligible accounts receivable and 50 percent of eligible inventories (up to a maximum of \$1.1 million and not to exceed 60 percent 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 lines of credit.

The Bank agreement contains various covenants that the Company is required to maintain, and as of March 31, 2002 the Company was in compliance with such

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covenants.

### NOTE 6. SIGNIFICANT CUSTOMERS

In the three month period ended March 31, 2002, two customers accounted for 47% and 21%, 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 March 31, 2002, were \$1,462,000 and \$711,000, respectively.

### NOTE 7. SIGNIFICANT SUPPLIERS

In the three months ended March 31, 2002, the Company purchased 49% of its raw materials, components and supplies from one supplier in connection with sales to its largest customers. At March 31, 2002, the account payable to this supplier was \$2,014,000.

### NOTE 8. FINANCIAL REPORTING FOR BUSINESS SEGMENTS:

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 for the three month period ended March 31 are as follows:

|                                  | 2002         | 2001         |
|----------------------------------|--------------|--------------|
|                                  | -----        | -----        |
| Sales to Unaffiliated Customers: |              |              |
| United States                    | \$ 5,180,730 | \$ 5,019,357 |
| Europe                           | 1,568,612    | 288,813      |
| Asia                             | 175,555      | 65,181       |
| All Other                        | 934,181      | 154,965      |
|                                  | -----        | -----        |
| Total                            | \$ 7,859,078 | \$ 5,528,316 |
|                                  | =====        | =====        |

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### INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Stockholders Color Imaging, Inc. Norcross, Georgia

We have audited the accompanying consolidated balance sheets of Color Imaging, Inc. (a Delaware corporation) and subsidiary as of December 31, 2001 and 2000 (as restated - see Note 3), and the related consolidated statements of operations, stockholders' equity and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes

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examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Color Imaging, Inc. and subsidiary as of December 31, 2001 and 2000 (as restated - see Note 3), and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

LAZAR LEVINE & FELIX LLP

New York, New York  
February 15, 2002,  
except for the 3rd and 4th  
paragraphs of Note 8(A)  
the date of which is  
March 20, 2002

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### COLOR IMAGING, INC. AND SUBSIDIARY CONSOLIDATED BALANCE SHEETS DECEMBER 31, 2001 AND 2000

|   | 2001       |
|---|------------|
|   | -----      |
| - ASSETS -  |            |
| CURRENT ASSETS:   |            |
| Cash  | \$ 395,327 |
| Accounts receivable -- net of allowance for doubtful accounts<br>of \$100,000 for 2001 and 2000 | 3,030,995  |
| Inventories   | 6,056,042  |
| Deferred taxes  | 277,239    |
| Related party portion of IDR bond -- current  | 79,596     |
| Other current assets  | 339,141    |
|   | -----      |
| TOTAL CURRENT ASSETS  | 10,178,340 |
|   | -----      |
| PROPERTY, PLANT AND EQUIPMENT -- NET  | 8,438,826  |
|   | -----      |
| OTHER ASSETS:   |            |
| Patent/intellectual property  | 5,000      |
| Deferred income tax   | 312,000    |
| Related party portion of IDR bond   | 818,500    |
| Other assets  | 225,204    |
|   | -----      |

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|   |              |  |
|---|--------------|--|
|   | 1,360,704    |  |
|   | -----        |  |
|   | \$19,977,870 |  |
|   | =====        |  |
| - LIABILITIES & STOCKHOLDERS' EQUITY -  |              |  |
| CURRENT LIABILITIES:  |              |  |
| Revolving credit lines  | \$ 1,462,416 |  |
| Accounts payable  | 4,898,665    |  |
| Current portion of notes payable  | 369,198      |  |
| Current portion of bonds payable  | 335,000      |  |
| Other current liabilities   | 501,086      |  |
|   | -----        |  |
| TOTAL CURRENT LIABILITIES   | 7,566,365    |  |
|   | -----        |  |
| LONG TERM LIABILITIES:  |              |  |
| Notes payable   | 1,359,000    |  |
| Bonds payable   | 3,445,000    |  |
|   | -----        |  |
| LONG TERM LIABILITIES   | 4,804,000    |  |
|   | -----        |  |
| TOTAL LIABILITIES   | 12,370,365   |  |
|   | -----        |  |
| COMMITMENTS & CONTINGENCIES   |              |  |
| STOCKHOLDERS' EQUITY:   |              |  |
| Common stock, \$.01 par value, authorized 20,000,000 shares;<br>10,099,175 and 7,490,948 shares issued and outstanding on<br>December 31, 2001 and 2000, respectively | 100,992      |  |
| Additional paid-in capital  | 9,873,939    |  |
| Stock subscription receivable   | (149,000)    |  |
| Accumulated deficit   | (2,218,426)  |  |
|   | -----        |  |
|   | 7,607,505    |  |
|   | -----        |  |
|   | \$19,977,870 |  |
|   | =====        |  |

See notes to consolidated financial statements.

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## COLOR IMAGING, INC. AND SUBSIDIARY CONSOLIDATED STATEMENTS OF OPERATIONS FOR THE YEARS ENDED DECEMBER 31, 2001 AND 2000

|               | 2001          | 2000<br>(AS RESTATED -<br>SEE NOTE 3) |
|---------------|---------------|---------------------------------------|
| SALES         | \$ 30,521,167 | \$12,108,132                          |
| COST OF SALES | 26,053,501    | 10,329,418                            |
|               | -----         | -----                                 |
| GROSS PROFIT  | 4,467,666     | 1,778,714                             |
|               | -----         | -----                                 |

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|   |           |              |
|---|-----------|--------------|
| OPERATING EXPENSES:                             |           |              |
| Administrative                                  | 1,698,836 | 889,742      |
| Deferred charge write-off                       | 215,371   | --           |
| Research and development                        | 883,115   | 764,286      |
| Sales and marketing                             | 1,196,458 | 470,625      |
|   | -----     | -----        |
|   | 3,993,780 | 2,124,653    |
| INCOME (LOSS) FROM OPERATIONS                   | 473,886   | (345,939)    |
|   | -----     | -----        |
| OTHER INCOME (EXPENSE):                         |           |              |
| Interest and other (expense)                    | 39,183    | (147,988)    |
| Interest and financing costs                    | (417,107) | (241,037)    |
| Non-recurring moving expenses                   | (9,570)   | (256,212)    |
|   | -----     | -----        |
|   | (387,494) | (645,237)    |
|   | -----     | -----        |
| INCOME (LOSS) BEFORE PROVISION FOR INCOME TAXES | 86,392    | (991,176)    |
| PROVISION (BENEFIT) FOR INCOME TAXES            | 36,616    | (332,792)    |
|   | -----     | -----        |
| NET INCOME (LOSS)                               | \$ 49,776 | \$ (658,384) |
|   | =====     | =====        |
| INCOME (LOSS) PER COMMON SHARE:                 |           |              |
| Basic   | \$.01     | \$ (.09)     |
| Diluted   | \$.01     | \$ (.09)     |
| WEIGHTED AVERAGE SHARES OUTSTANDING             |           |              |
| OUTSTANDING-BASIC                               | 7,985,071 | 7,055,763    |
| DILUTED   | 8,560,369 | 7,154,136    |
|   | =====     | =====        |

See notes to consolidated financial statements.

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## COLOR IMAGING, INC. AND SUBSIDIARY CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY FOR THE YEARS ENDED DECEMBER 31, 2001 AND 2000

|  | SHARES    | COMMON STOCK | ADDITIONAL PAID-IN CAPITAL | STOCK SUBSCRIPTION RECEIVABLE |
|--|-----------|--------------|----------------------------|-------------------------------|
|  | -----     | -----        | -----                      | -----                         |
| Balance at December 31, 1999<br>(as restated - see Note 3) | 3,999,987 | \$ 40,000    | \$3,058,241                | --                            |
| Acquisition of Image                                       | 3,000,000 | 30,000       | 3,194,039                  | --                            |
| Exercise of stock warrants                                 | 46,211    | 462          | 91,960                     | --                            |
| Common stock issued in<br>private placement                | 444,750   | 4,447        | 885,053                    | --                            |
| Net loss for the year                                      | --        | --           | --                         | --                            |

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|  | -----      | -----     | -----       | -----        |
|--|------------|-----------|-------------|--------------|
| Balance at December 31, 2000<br>(as restated - see Note 3) | 7,490,948  | 74,909    | 7,229,293   | --           |
| Exercise of stock warrants                                 | 55,452     | 555       | 110,349     | --           |
| Exercise of stock, warrants,<br>cashless                   | 1,104,815  | 11,048    | (11,048)    | --           |
| Common stock, issued for services                          | 10,000     | 100       | 24,900      | --           |
| Common stock, issued in private<br>placement               | 1,437,960  | 14,380    | 2,520,445   | (149,000)    |
| Net income for the year                                    | --         | --        | --          | --           |
|  | -----      | -----     | -----       | -----        |
| Balance at December 31, 2001                               | 10,099,175 | \$100,992 | \$9,873,939 | \$ (149,000) |
|  | =====      | =====     | =====       | =====        |

See notes to consolidated financial statements.

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COLOR IMAGING, INC. AND SUBSIDIARY  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED DECEMBER 31, 2001 AND 2000

|   | 2001<br>----- |
|---|---------------|
| CASH FLOWS FROM OPERATING ACTIVITIES:   |               |
| Net income (loss)   | \$ 49,776     |
| Adjustments to reconcile net income (loss) to net cash<br>provided by operating activities: |               |
| Depreciation and amortization   | 603,100       |
| Deferred income taxes   | 34,271        |
| Compensatory shares   | 25,000        |
| Decrease (increase) in:   |               |
| Accounts and other receivables  | 718,471       |
| Inventories   | (874,794)     |
| Prepaid expenses and other assets   | (134,727)     |
| Due from related party under IDR bond   | 76,032        |
| Increase (decrease) in:   |               |
| Accounts payable and accrued liabilities  | (1,630,229)   |
| NET CASH (USED IN PROVIDED BY OPERATING ACTIVITIES  | (1,133,100)   |
|   | -----         |
| CASH FLOWS FROM INVESTING ACTIVITIES:   |               |
| Capital expenditures  | (785,496)     |
| Other assets  | 53,805        |



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|   |            |
|---|------------|
| Patents and intellectual properties               | --         |
|   | -----      |
| NET CASH (USED IN) INVESTING ACTIVITIES           | (731,691)  |
|   | -----      |
| CASH FLOWS FROM FINANCING ACTIVITIES:             |            |
| Net borrowings under line of credit               | 63,416     |
| Proceeds from long-term debt                      | 27,865     |
| Proceeds from sale of stock                       | 2,496,729  |
| Principal payments of long-term debt              | (667,240)  |
|   | -----      |
| NET CASH PROVIDED BY FINANCING ACTIVITIES         | 1,920,770  |
|   | -----      |
| NET INCREASE (DECREASE) IN CASH                   | 55,979     |
| Cash at beginning of year                         | 339,348    |
|   | -----      |
| CASH AT END OF YEAR                               | \$ 395,327 |
|   | =====      |
| SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION: |            |
| Cash paid during the year for:                    |            |
| Income taxes                                      | \$ --      |
|   | -----      |
| Interest  | \$ 417,107 |
|   | =====      |

See notes to consolidated financial statements.

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## COLOR IMAGING, INC. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2001 AND 2000

### NOTE 1. DESCRIPTION OF COMPANY:

On May 16, 2000, Color Imaging, Inc., formerly known as Advatex Associates, Inc. (Advatex), Logical Acquisition Corp. (LAC), Color Acquisition Corp. (CAC), Logical Imaging Solutions, Inc. (Logical) and Color Image, Inc. (Image) entered into a Merger Agreement and Plan of Reorganization, as amended (Merger Agreement), pursuant to which LAC merged with and into Logical and CAC merged with and into Image (the Merger) and Logical and Image became wholly-owned subsidiaries of Advatex. Pursuant to the Merger Agreement, stockholders of Logical and Image exchanged their common stock for shares of common stock of Advatex. A reverse stock split of one share of common stock for 6.0779 shares of common stock was simultaneously approved for the then existing Advatex common stock. Subsequently, the equity interests in Logical were converted by virtue of the Logical Merger into approximately 3,000,000 newly issued shares of Advatex common stock, on the basis of 1.84843 Advatex Common Shares for each one share of common stock of Logical. The equity interests in Image were converted by virtue of the Image Merger into approximately 3,000,000 newly issued shares of the Advatex common stock on the basis of 15 Advatex common shares for each one share of common stock of Image. The above transactions were consummated on June 28, 2000.

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Prior to the completion of the above referenced transaction, Advatex was a non-operating, fully reporting, public shell, and both Logical and Image were privately owned operating enterprises. By the terms of the Merger Agreement and Plan of Reorganization, the combination was contingent upon the agreement of all of the enterprises, and it was, therefore considered a single business combination.

Image and Logical each received the same number of shares and both the board of directors and executive officers of the Company were equally divided between the managements of Logical and Image. However, since the majority of the voting stock was held by directors coming from Logical or including former Logical directors, Logical was determined to be the accounting acquirer in the reverse merger with Advatex, based upon guidance provided by Securities and Exchange Commission (SEC) Staff Accounting Bulletin (SAB) Topic 2A and APB 16, regarding Business Combinations.

The fair market value of the shares being issued in the reverse acquisition transaction could not be determined and accordingly, the transaction was valued at the fair market value of the issuer's net assets, which approximated their carrying value. As a result, and consistent with treatment of a merger between a non-operating public shell and privately held entity, no goodwill was recognized.

Concurrently with the above transaction, Advatex, the legal acquirer, issued 3,000,000 shares of common stock (with a per share value of \$1.00 as determined in the aforementioned reverse acquisition by Logical of Advatex) in exchange for the outstanding shares of Image. This transaction was accounted for under the purchase method of accounting (see Note 3 - Restatement). The fair value of the Image's assets was reviewed to determine the allocation of the cost of the purchase to tangible and intangible assets, including goodwill. Management determined that no adjustment to the financial statements of Image was necessary, and that the fair value of the tangible and intangible assets of Image was equivalent to their respective book values and no goodwill was recognized in this transaction. The historical financial statements are those of Logical, and the assets, liabilities and operating results of Image are only included in the consolidated financial statements of the Company from the date of acquisition, June 28, 2000.

The following unaudited pro forma results of operations were developed assuming the acquisition had occurred at the beginning of the earliest period presented.

|                | Year Ended December 31, 2000<br>(Unaudited Proforma Data) |
|----------------|---|
| -----          |   |
| Net sales      | \$ 21,204,435   |
| Net loss       | (517,934)   |
| Loss per share | \$ (0.07)   |

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### NOTE 1. DESCRIPTION OF COMPANY (CONTINUED):

On July 7, 2000, by a vote of the majority of stockholders, Advatex Associates, Inc. (Advatex), changed its name to Color Imaging, Inc. (the Company or Color) and approved the reverse stock split. On December 31, 2000, Image merged into

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Color with Color being the surviving entity. At December 31, 2001, there were 11,124,175 shares of the common stock of the Company issued and outstanding. During March 2002 two transactions for the sale of 1,025,000 shares of the Company's common stock were rescinded.

Color develops, manufactures and markets products used in electronic printing and photocopying. Color designs, manufactures and delivers black text toners, specialty toners, including color and MICR (magnetic characters used on checks and other financial documents). Color also supplies other consumable products used in electronic printing and photocopying, including toner cartridges, cartridge components, photoreceptors and imaging drums.

Logical's development efforts have focused on creating a digital variable printing process that provides high-speed, color printing systems for commercial applications. Logical designs, manufactures and delivers complete printing systems, including software, control units and print engines to its customers.

### NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

#### A. PRINCIPLES OF CONSOLIDATION:

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiary, Logical Imaging Solutions, Inc. All significant intercompany balances and transactions have been eliminated in consolidation.

#### B. ESTIMATES AND ASSUMPTIONS:

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

#### C. FINANCIAL INSTRUMENTS:

The carrying amount of the Company's financial instruments, which include cash equivalents, marketable securities, accounts receivable, accounts payable and long-term debt, approximates their fair value at December 31, 2001 and 2000.

#### D. CONCENTRATION OF CREDIT RISK:

Financial instruments which potentially subject the Company to concentrations of credit risk are cash equivalents, marketable securities and accounts receivable. The Company attempts to limit its credit risk associated with cash equivalents and marketable securities and at December 31, 2001 its investments were in cash held in highly rated financial institutions. With respect to accounts receivable, the Company limits its credit risk by performing ongoing credit evaluations and, when deemed necessary, requiring cash in advance, payment by credit card, letters of credit or guarantees. The Company's customer base is comprised principally of domestic distributors, remanufacturers of laser printing consumable products and commercial printers. Management does not believe significant risk exists in connection with the Company's concentrations of credit at December 31, 2001.

#### E. CASH AND CASH EQUIVALENTS:

The Company considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

#### F. INVENTORIES:

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Inventories are stated at the lower of cost or market with cost determined by the first-in, first-out (FIFO) method for raw materials, work-in-process and finished goods. Costs in inventory include materials, direct labor, and applied manufacturing overhead.

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### NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

#### G. PROPERTY, PLANT AND EQUIPMENT:

Property, plant, and equipment are recorded at cost. Replacements and major improvements are capitalized; maintenance and repairs are expensed as incurred. Gains or losses on asset dispositions are included in the determination of net income.

Depreciation of the Company's property, plant, and equipment is computed using the straight-line method. The average estimated useful lives are as follows:

|                         | Years  |
|-------------------------|--------|
|                         | -----  |
| Leasehold improvements  | 10     |
| Machinery and equipment | 5 - 10 |
| Furniture and fixtures  | 7 - 10 |

#### H. INTANGIBLE ASSETS:

Intangible assets are comprised of patents and intellectual property. All intangible property is amortized by the straight-line method, over their respective useful lives, commencing upon completion of commercialization. Intangibles are periodically reviewed to assess recoverability from future operations using undiscounted cash flows in accordance with SFAS 121, "Accounting for the Impairment of Long-Lived Assets and Long-Lived Assets to be Disposed Of". To the extent carrying values exceed fair values, an impairment loss is recognized in operating results.

#### I. STOCK-BASED COMPENSATION:

The Company grants stock options for a fixed number of shares of common stock to employees with an exercise price equal to the fair value of the common stock at the date of grant. The Company accounts for stock option grants in accordance with APB Opinion No. 25, Accounting for Stock Issued to Employees (APB 25) and related Interpretations because the Company believes the alternative fair value accounting provided for under FASB Statement No. 123, Accounting for Stock-Based Compensation, (FAS 123) requires the use of option valuation models that were not developed for use in valuing employee stock options. Under APB 25, because the exercise price of the Company's employee stock options equals the market price of the underlying stock on the date of grant, no compensation expense is recognized.

#### J. INCOME TAXES:

The asset and liability method is used in accounting for income taxes. Under this method, deferred tax assets and liabilities are recognized for operating loss and tax credit carry forwards and for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax

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assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in the results of operations in the period that includes the enactment date. A valuation allowance is recorded to reduce the carrying amounts of deferred tax assets unless it is more likely than not that such assets will be realized.

### K. REVENUE RECOGNITION:

Color designs, manufactures and sells toner used in electronic printing. Revenue from such product sales is recognized when persuasive evidence of an arrangement exists, delivery has occurred, the fee is fixed or determinable and collectibility is probable. At this time the earnings process is complete and the risks and rewards of ownership have transferred to the customer, which is generally when the goods are shipped and all significant obligations of the Company have been satisfied. Both Logical and Color supply consumable products used in electronic printing and revenue from the sale of such consumables is also recognized when the goods are shipped. Sales of the printing systems designed and manufactured by Logical have been negligible through December 31, 2001, and accordingly, the Company has not generated revenues from warranty contracts and/or services provided for installation and maintenance.

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### NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

#### K. REVENUE RECOGNITION (CONTINUED):

The Company recognizes revenues in accordance with Staff Accounting Bulletin 101, Revenue Recognition in Financial statements (SAB 101). As a result, the publication of SAB 101 did not have an impact on the Company's financial statements.

#### L. ADVERTISING COSTS:

In accordance with SOP No. 93-7, Reporting on Advertising Costs, the Company expenses all advertising expenditures as incurred. The Company incurred \$57,473 and \$33,226 in advertising costs during 2001 and 2000, respectively.

#### M. RESEARCH AND DEVELOPMENT EXPENSES:

Research and development costs are charged to expense when incurred and aggregated \$883,115 and \$764,286 for 2001 and 2000, respectively.

#### N. EARNINGS (LOSS) PER COMMON SHARE:

Earnings per common share are calculated under the provisions of SFAS No. 128, Earnings per Share. SFAS No. 128 requires the Company to report both basic earnings per share, which is based on the weighted-average number of common shares outstanding, and diluted earnings per share, which is based on the weighted-average number of common shares outstanding plus all potential dilutive common shares outstanding. Since the Company reported a loss from operations in 2000, the exercise of stock options and warrants was not assumed since the result would be antidilutive.

#### O. FOREIGN CURRENCY TRANSACTIONS:

During 2001, the Company began selling its products in certain overseas markets where the prices were denominated in Euros. All balance sheet accounts resulting from foreign transactions are translated into U.S. dollars at the rate of exchange in effect at the balance sheet date and statements of operations items are translated at the weighted average exchange rates for the year. The resulting translation adjustments are made directly to a separate component of stockholders' equity. Gains and losses from foreign currency transactions, such as those resulting from the settlement of foreign receivables (or payables) are included in the consolidated statements of operations. As of December 31, 2001, there were no material balance sheet items resulting from foreign currency transactions. Losses from the settlement of foreign receivables aggregated \$1,876 for the year ended December 31, 2001 and is included in other expense on the statements of operations.

P. DEFERRED CHARGES:

The Company defers certain expenditures related to the activities associated with the acquisition of business assets, which the Company has determined have a future economic benefit. These expenditures are then capitalized into the cost of the assets upon acquisition. Management reviews these assets whenever the circumstances and situations change such that there is an indication that the carrying amount is not recoverable. When management's best estimate of the future economic benefit of these assets is less than the carrying amount, the carrying amount is reduced to the fair value and a write-off is recognized. Deferred charges written off are not restored.

At December 31, 2000, the Company had recorded deferred charges aggregating \$53,805 in connection with fees and costs related to the planned acquisition of a manufacturing business, and, during 2001, incurred additional costs of \$161,566. The Company was not able to consummate this acquisition and, as of December 31, 2001, wrote off such deferred costs.

Q. NEW ACCOUNTING STANDARDS:

In March 2000, the Financial Accounting Standards Board (FASB) issued Interpretation No. 44 (FIN 44), Accounting for Certain Transactions Involving Stock Compensation, an Interpretation of APB Opinion No. 25. FIN 44 clarifies the application of APB No. 25 for certain issues, including the definition of an employee, the treatment of the acceleration of stock options and the accounting treatment for options assumed in business combinations. FIN 44 became effective on July 1, 2000, but is applicable for certain transactions dating back to December 1998. The adoption of FIN 44 did not have a material impact on the Company's financial position or results of operations.

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NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

Q. NEW ACCOUNTING STANDARDS (CONTINUED):

In December 1999, the Securities and Exchange Commission (SEC) issued Staff Accounting Bulletin (SAB) No. 101, Revenue Recognition in Financial Statements. (SAB No. 101). SAB No. 101 expresses the views of the SEC staff in applying generally accepted accounting principles to certain revenue recognition issues. Subsequently, SAB Nos. 101A and 101B were issued delaying the implementation of SAB No. 101 to the fourth quarter of 2000. The SAB requires companies to report any changes in revenue recognition as a cumulative change in accounting

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principle at the time of implementation in accordance with Accounting

Principles Board (APB) Opinion 20, Accounting Changes. The adoption of SAB No. 101 did not have a material impact on the Company's financial position or results of operations.

New accounting standards issued include SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities, which establishes a comprehensive standard for the recognition and measurement of derivatives and hedging activities. The new standard requires that all derivatives be recognized as assets or liabilities in the statement of financial position and measured at fair value. Gains or losses resulting from changes in fair value are required to be recognized in current earnings unless specific hedge criteria are met. SFAS No. 133 became effective for the Company beginning in the first quarter of fiscal year 2001 but has had no impact on the Company's financial statements due to the Company's limited use of derivatives.

In July 2001, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 141, "Business Combinations" ("SFAS 141") and Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets" ("SFAS 142"). SFAS 141 requires all business combinations to be accounted for using the purchase method of accounting and is effective for all business combinations completed after June 30, 2001. SFAS 142 requires goodwill to be tested for impairment under certain circumstances, and written-off when impaired, rather than being amortized as previous standards required. Furthermore, SFAS 142 requires purchased intangible assets to be amortized over their estimated useful lives unless these lives are determined to be indefinite. SFAS 142 is effective for fiscal years beginning after December 15, 2001. The Company is currently assessing the impact of SFAS 142 on its operating results and financial condition but does not believe it will be material.

On October 3, 2001, the FASB issued Statement of Financial Accounting Standards No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" ("SFAS 144"), that is applicable to financial statements issued for fiscal years beginning after December 15, 2001. The FASB's new rules on asset impairment supercede SFAS 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of," and portions of Accounting Principles Board Opinion 30, "Reporting the Results of Operations". This Standard provides a single accounting model for long-lived assets to be disposed of and significantly changes the criteria that would have to be met to classify an assets as held-for-sale.

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### NOTE 3. RESTATEMENT OF YEAR 2000 FINANCIAL STATEMENTS:

The accompanying financial statements for the year ended December 31, 2000, have been restated to reflect the business combination with Image (see Note 1) under the purchase method of accounting as opposed to the pooling of interests method, as previously reported. Accordingly, Image's financial statements are only consolidated beginning with the date of acquisition, June 28, 2000. In addition, the Company reclassified certain tangible assets that were erroneously classified as Patent/Intellectual Property. The following tables present the impact of the restatement.

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|   | As Previously<br>Reported<br>----- | As Restated<br>----- |
|---|------------------------------------|----------------------|
| Year Ended December 31, 2000:                 |                                    |                      |
| Balance Sheet:                                |                                    |                      |
| Deferred taxes-- current                      | \$159,426                          | \$155,526            |
| Related party portion-- IDR bond, current     | 100,832                            | 76,032               |
| Property, plant and equipment, net            | 7,384,679                          | 8,256,430            |
| Patent/intellectual property                  | 876,751                            | 5,000                |
| Deferred income tax, non-current              | 464,085                            | 467,984              |
| Related party portion-- IDR bond, non-current | 873,296                            | 898,096              |
| Accounts payable                              | 6,640,402                          | 6,665,322            |
| Current portion of notes payable              | 351,150                            | 343,408              |
| Other current liabilities                     | 400,276                            | 370,765              |
| Notes payable-- non-current                   | 1,685,725                          | 1,698,058            |
| Additional paid-in capital                    | 6,986,003                          | 7,229,293            |
| Accumulated deficit                           | (2,024,912)                        | (2,268,202)          |

|                                    | As Previously<br>Reported<br>----- | As Restated<br>----- |
|------------------------------------|------------------------------------|----------------------|
| Year Ended December 31, 2000:      |                                    |                      |
| Statement of Operations:           |                                    |                      |
| Sales                              | \$21,204,435                       | \$12,108,132         |
| Cost of sales                      | 17,946,605                         | 10,329,418           |
| Administrative expenses            | 1,478,075                          | 889,742              |
| Research and development           | 1,003,565                          | 764,286              |
| Sales and marketing                | 881,176                            | 470,625              |
| Interest and other income(expense) | 351,062                            | (147,988)            |
| Interest and financing costs       | (488,948)                          | (241,037)            |
| Non-recurring moving expenses      | (488,854)                          | (256,212)            |
| Benefit for income taxes           | (213,792)                          | (332,792)            |
| Net loss                           | (517,934)                          | (658,384)            |
| Basic and diluted loss per share   | \$(.07)                            | \$(.09)              |

See also Note 1 -- Unaudited Proforma Data

NOTE 4. INVENTORIES:

Inventories consisted of the following components as of December 31, 2001 and 2000:

|                        | 2001<br>----- | 2000<br>----- |
|------------------------|---------------|---------------|
| Raw materials          | \$723,480     | \$794,128     |
| Work-in-process        | 967,982       | 1,275,545     |
| Finished goods         | 4,534,410     | 3,234,230     |
| Obsolescence allowance | (169,830)     | (122,655)     |
| Total                  | \$6,056,042   | \$5,181,248   |



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## NOTE 5. PROPERTY AND EQUIPMENT:

Property and equipment consisted of the following as of December 31, 2001 and 2000:

|   | 2001        | 2000        |
|---|-------------|-------------|
|   | -----       | -----       |
| Furniture and fixtures                          | \$132,310   | \$129,955   |
| Test equipment                                  | 456,152     | 412,325     |
| Manufacturing machinery and equipment           | 7,588,035   | 6,865,206   |
| Leasehold improvements                          | 1,268,506   | 1,252,021   |
|   | -----       | -----       |
|   | 9,445,003   | 8,659,507   |
| Less: accumulated depreciation and amortization | (1,006,177) | (403,077)   |
|   | -----       | -----       |
|   | \$8,438,826 | \$8,256,430 |
|   | =====       | =====       |

Depreciation and amortization expense amounted to \$603,100 and \$379,117 in 2001 and 2000, respectively.

## NOTE 6. BORROWING ARRANGEMENTS:

As a condition of its Bank's consent to the business combination (see Note 1), the Company, on August 30, 2000, entered into an amended and restated borrowing arrangement, granting to the bank a security interest in all of the Company's assets as security for the payment of the obligations owed the bank.

The Company has a \$2.5 million revolving line of credit with an outstanding balance as of December 31, 2001 of \$1,462,416, which bears interest at the rate of 4.75% (the one-month libor of 2.25% plus 2.5%) as of December 31, 2001. The revolving line of credit has a June 30, 2002 expiration date. Under the line of credit, the Company is permitted to borrow 85% of eligible accounts receivable and 50% of eligible inventories (up to a maximum of \$1.1 million).

The Bank agreement contains various covenants that the Company is required to maintain; fixed charge and cash flow leverage ratios of not less than 1.20:1 and not greater than 4.00:1, respectively. As of December 31, 2001, the Company was not in compliance with these covenants and received a waiver from the bank as regards these requirements for the period ending December 31, 2001. On February 7, 2002, the bank approved a modification to these covenants to a fixed charge and cash flow coverage leverage ratios of not less than 1.05:1 and not greater than 5.00:1, respectively. The Company is in compliance with these new covenants.

Long-term debt was comprised of the following as of December 31:

|  |           |
|--|-----------|
|  | 2001      |
|  | ----      |
| Term note payable to a financial institution due in monthly installments of principal and interest of \$848 through March 2003; bears interest at 8.0%, collateralized by automobile with a net book value of \$26,386 | \$ 12,021 |
| Term note payable to a financial institution due in monthly installments of  |           |

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|   |             |
|---|-------------|
| principal and interest of \$10,676 through November 2005; bears interest at 10.215%; collateralized by inventory, accounts receivable and equipment   | 419,245     |
| Term note payable to a financial institution in monthly installments of principal and interest of \$27,205 through June 2006 bears interest at 7.90%; collateralized by inventory, accounts receivable and equipment (see Note 7) | 1,234,755   |
| Various equipment notes maturing in 2006  | 62,177      |
|   | -----       |
|   | 1,728,198   |
| Less current maturities   | 369,198     |
|   | -----       |
|   | \$1,359,000 |
|   | =====       |

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### NOTE 6. BORROWING ARRANGEMENTS (CONTINUED):

The aggregate scheduled maturities of long-term debt for each of the next five years are as follows:

|       |             |
|-------|-------------|
| 2002  | \$369,198   |
| 2003  | 366,423     |
| 2004  | 396,511     |
| 2005  | 428,542     |
| 2006  | 167,524     |
|       | -----       |
| Total | \$1,728,198 |
|       | =====       |

### NOTE 7. INDUSTRIAL DEVELOPMENT REVENUE BOND:

On June 1, 1999, the Development Authority of Gwinnett County (the Authority), issued \$4,100,000 of industrial development revenue bonds on behalf of the Company and a Related Party. The 3.5% revenue bonds are payable in varying annual principal and monthly interest payments through July 2019. The bond is secured by all the assets of the Company and by real property owned by the Related Party. The bonds along with the line of credit and term loan (see Note 6) are held by two related financial institutions.

A loan agreement between the Authority and the Company and a Related Party allows funds to effectively pass through the Authority to the Company. The majority of the proceeds, \$3,125,872, were used by the Company to purchase and install certain manufacturing equipment, while \$974,128 was used by the Related Party to pay down the mortgage on the real property leased to the Company. The Company and the Related Party are jointly obligated to repay any outstanding debt. Under the Joint Debtor Agreement of June 28, 2000, between the Company and the Related Party, each has agreed to be responsible to the other for their share of the bond obligations and that any party causing an act of default shall be responsible for 100% of the bond obligations. The amount for which the Related Party is responsible to the Company is reflected in current and other assets of the Company. The Related Party amounts owed to the Authority are secured by a lien on the real property leased by the Company and by personal

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guarantees executed by members of the Related Party. At this time, the Company believes that the Related Party portion of the bond is fully collectible. As of December 31, 2001, the bond principal outstanding was \$3,780,000 and the portion due from the Related Party was \$898,096.

The aggregate maturities of bonds payable for each of the next five years are as follows:

|            | Company<br>----- | Related Party<br>----- | Total<br>----- |
|------------|------------------|------------------------|----------------|
| 2002       | \$254,600        | \$80,400               | \$335,000      |
| 2003       | 266,000          | 84,000                 | 350,000        |
| 2004       | 281,200          | 88,800                 | 370,000        |
| 2005       | 296,400          | 93,600                 | 390,000        |
| 2006       | 307,800          | 97,200                 | 405,000        |
| Thereafter | 1,475,904        | 454,096                | 1,930,000      |
|            | -----            | -----                  | -----          |
| Total      | \$2,881,904      | \$898,096              | \$3,780,000    |
|            | =====            | =====                  | =====          |

### NOTE 8. STOCKHOLDERS EQUITY:

#### A. COMMON STOCK AND STOCK WARRANTS:

As discussed in Note 1, the Company issued an aggregate of 6,000,000 shares of its common stock to the stockholders of Logical and Image in exchange for their shares in Logical and Image in a merger transaction. Simultaneously, in 2000, the Company effected a reverse stock split of one for 6.0779 shares of common stock.

As part of the Merger, the Company granted warrants (the New Warrant) to purchase up to 100,000 shares of the common stock of the Company to professional advisors to the Merger. The New Warrant entitles the warrant holder to purchase, at any time and for a five-year period, a share of common stock of the Company for \$2.00 per share. In addition, current stockholders at December 31, 2001, own 225,507 similar warrants (the Old Warrant). The Old Warrant entitles the warrant holder to purchase, at any time until September 15, 2002, a share of common stock of the Company for \$2.70 per share. As of December 31, 2001 and 2000, the Company had received \$110,905 and \$92,421, respectively, in proceeds from the exercise of Old Warrants.

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### NOTE 8. STOCKHOLDERS' EQUITY (CONTINUED):

#### A. COMMON STOCK AND STOCK WARRANTS (CONTINUED):

The Company issued Units consisting of common stock and common stock underlying warrants to investors in a private placement approved by the Board of Directors on August 29, 2000. Each Unit in the private placement was priced at \$2.00 and consisted of one common share of the Company's common stock and one warrant to purchase one share of common stock at an exercise price of \$2.00. An additional warrant to purchase common stock of the Company, for each Unit purchased in the private placement, was issued to subscribers, at no additional cost, whose investment(s) aggregated at least \$300,000. The warrants expire November 30, 2003. During 2001, the Company issued and sold 1,437,960 Units for a total of

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\$2,925,920 in cash and notes receivable. The Company also issued, at no additional cost, 1,312,960 additional warrants during this same period. In March 2002, subsequent to the balance sheet date, the Company rescinded one transaction entered into during 2001 for the sale of 25,000 shares of common stock and warrants to purchase 25,000 shares of the common stock of the Company. This transaction has been retroactively reflected in the financial statements as of December 31, 2001. The Company paid fees of \$59,520 in connection with the private placement. Additionally, the Company issued 129,837 warrants to finders to purchase the Company's common stock at an exercise price of \$2.00. During 2001, holders of the Company's warrants exercised 2,462,500 warrants on a cashless basis and received 1,104,815 shares of the Company's common stock. No underwriting discounts or commissions were paid to any person. As of March 12, 2002, all notes receivable have been fully paid by the investors.

On October 30, 2001, the Company issued and sold 1,000,000 shares of its common stock to one accredited investor in exchange for \$2 million. The purchase price was \$2.00 per share, of which \$10,000 was payable in cash and \$1,990,000 was payable in the form of a recourse promissory note, payable at the earlier to occur of (i) six months after the registration statement covering the shares is declared effective or (ii) twelve months from the date of the purchase agreement. The Company also agreed to issue up to 500,000 warrants to purchase its common stock to the investor in the event it resells the shares at a purchase price of at least \$2 per share. These warrants are exercisable for one year at an exercise price of \$2 per share. In March 2002, when the shares could not be registered with the Securities and Exchange Commission while the promissory note was unpaid, the Company and the investor mutually rescinded this transaction and the Company has retroactively reflected this rescission as of December 31, 2001.

### B. STOCK OPTIONS:

After the Merger, on June 28, 2000, the Company granted options to acquire 500,000 shares of the common stock of the Company to senior members of the Company's management at an exercise price of \$2.00 per share. The options vest over a two to four year period and expire 5 years from their respective date of vesting.

The Company granted options to acquire 710,000 shares of the common stock of the Company to employees, officers and directors at an exercise price of \$2.75 per share during the year ended December 31, 2001. 535,000 options were granted to officers and employees of which 25% vested immediately and the remainder vest over 3 years. The officer and employee options expire 5 years from their respective date of vesting. Each outside director of the Company was granted options to acquire 25,000 shares of the common stock of the Company, for a total of 175,000 options, effective upon his or her election or appointment to the board of directors. The outside director options vest over 5 years, beginning with the first anniversary date of his or her appointment to the board, and expire 3 years from their respective date of vesting.

Pro forma information regarding net income and earnings per share is required by Financial Accounting Standards Board Statement 123, and has been determined as if the Company had accounted for its employee stock options under the fair value method of that Statement.

The fair value for these options was estimated at the date of grant using a Black-Scholes option pricing model with the following weighted-average assumptions for 2001 and 2000, respectively, risk-free interest rate of 4.51% and 6.02%, dividend yield of 0% and 0%, volatility factor of the expected market price of the Company's common stock of .26 and .49, and a weighted-average expected life of the option of 3 years.

The Black-Scholes option valuation model was developed for use in estimating the

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fair value of traded options, which have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions including the expected stock price volatility. Because the Company's employee stock options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, in management's opinion, the existing models do not necessarily provide a reliable single measure of the fair value of its employee stock options.

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### NOTE 8. STOCKHOLDERS' EQUITY (CONTINUED):

#### B. STOCK OPTIONS (CONTINUED):

For purposes of pro forma disclosures, the estimated fair value of the options is amortized to expense over the options' vesting period. The Company's pro forma information follows:

|                                  | 2001<br>---- | 2000<br>---- |
|----------------------------------|--------------|--------------|
| Pro forma net income (loss)      | \$3,021      | \$(840,587)  |
| Pro forma loss per common share: |              |              |
| Basic                            | .00          | (.12)        |
| Diluted                          | .00          | (.12)        |

A summary of the Company's stock option activity, and related information for the year ended December 31 follows:

|   | 2001<br>----- | Weighted<br>Average<br>Exercise<br>Price | 2000<br>----- | Weighted<br>Average<br>Exercise<br>Price |
|---|---------------|--|---------------|--|
|   | Shares        |  | Shares        |  |
| Outstanding, beginning of year                                    | 500,000       | \$ 2.00                                  | --            | \$                                       |
| Granted   | 710,000       | 2.75                                     | 500,000       | 2.0                                      |
| Exercised   | --            | --                                       | --            | -  |
| Outstanding, end of year  | 1,210,000     | 2.44                                     | 500,000       | 2.0                                      |
| Exercisable, end of year  | 503,750       | 2.21                                     | 250,000       | 2.0                                      |
| Weighted average fair value of<br>options granted during the year | \$ 1.98       |  | \$ 1.85       |  |

The weighted-average remaining contractual life of these options is 4.8 years.

#### C. RETAINED EARNINGS:

The Company is limited in its ability to declare and pay dividends by the terms of certain debt agreements.

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### NOTE 9. PENSION PLANS AND POSTRETIREMENT BENEFITS:

The Company has adopted the Color Image, Inc. Profit Sharing Retirement Plan. Under this defined contribution plan, employees with one year or more of service who have worked at least 1,000 hours and have reached age 21 are eligible for participation. Participants may contribute between 1% and 15% of their compensation as basic contributions. The Company will match 50% of the first 3% deferred by any participant. Company contributions vest from 20% in the second year of service to 100% in the sixth year. For the years ended December 31, 2001 and 2000, the Company incurred expenses of \$24,355 and \$9,940, respectively.

### NOTE 10. RELATED-PARTY TRANSACTIONS:

#### A. LEASE

The Company leases certain facilities under a ten-year real property lease agreement from Kings Brother LLC. (the Related Party -- see Note 7) which expires on April 30, 2009. The rental payments for the periods ending December 31, 2001 and 2000 were \$505,836 and \$186,427, respectively. See also Note 12.

#### B. PURCHASES

The Company purchases copier and laser printer products from an entity in which three directors have a beneficial ownership interest. Purchases for the 2001 and 2000 years aggregated approximately \$4,005,500 and \$435,500 respectively. See also Note 14.

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### NOTE 11. INCOME TAXES:

The provision for income taxes is composed of the following

|           |         | 2001      | 2000         |
|-----------|---------|-----------|--------------|
|           |         | -----     | -----        |
| Current:  |         |           |              |
|           | Federal | \$ 30,000 | \$ (358,157) |
|           | State   | 16,870    | (79,730)     |
| Deferred: |         |           |              |
|           | Federal | (20,130)  | 78,917       |
|           | State   | 9,876     | 26,178       |
|           |         | -----     | -----        |
|           |         | \$ 36,616 | \$ (332,792) |
|           |         | =====     | =====        |

The components of the net deferred income tax asset as of December 31, 2001 and 2000, are as follows:

|                      | 2001    | 2000      |
|----------------------|---------|-----------|
|                      | -----   | -----     |
| Deferred tax assets: |         |           |
| Inventory            | \$ 165  | \$ 65,602 |
| Accounts receivable  | 38,340  | 35,980    |
| Accrued expenses     | 62,861  | 58,313    |
| Federal tax credits  | 172,405 | 195,915   |

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|   |            |            |
|---|------------|------------|
| Net operating loss carryforward             | 491,074    | 537,600    |
|   | -----      | -----      |
|   | 764,845    | 893,410    |
| Valuation allowance for deferred tax assets | (53,760)   | (90,000)   |
|   | -----      | -----      |
|   | 711,085    | 803,410    |
| Deferred tax liabilities:                   |            |            |
| Fixed assets                                | (121,846)  | (179,900)  |
|   | -----      | -----      |
| Net deferred tax asset                      | \$ 589,239 | \$ 623,510 |
|   | =====      | =====      |

At December 31, 2001, the Company has recorded a net deferred tax asset of \$589,239 which is reflected in Current Assets and Other Assets in the consolidated balance sheet. Realization of the asset is dependent on generating sufficient taxable income in future periods. The Company had experienced operating losses for 2000 and 1999 years. A significant portion of the loss sustained in 2000 was a result of non-recurring moving expenses and management does not foresee any like charges for the next few years. The Company has taxable income for the 2001 and projects taxable income for 2002, as such, the Company believes that it is more likely than not that a substantial portion of the deferred tax asset will be realized, and consequently, has established a valuation allowance of only \$53,760 as of December 31, 2001.

At December 31, 2001, the Company had net operating loss carryforwards (NOLs) of \$491,074 for income tax purposes that expire in years beginning 2020.

The reconciliation of income tax computed at the U.S. federal statutory tax rates to income tax expense attributable to income before cumulative effect of accounting changes is:

|   |        |          |
|---|--------|----------|
|   | 2001   | 2000     |
|   | -----  | -----    |
| Tax at U.S. statutory rates                   | 34.00% | (34.00)% |
| State income taxes net of federal tax benefit | 6.16   | (4.26)   |
| Other-net                                     | (2.22) | 4.69     |
|   | -----  | -----    |
|   | 42.38% | (33.57)% |
|   | =====  | =====    |

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## NOTE 12. COMMITMENTS AND CONTINGENCIES:

### A. LEASES:

The Company currently leases approximately 180,000 square feet in Norcross, Georgia that serves as executive headquarters and houses manufacturing facilities, research and development and sales and marketing under a lease that expires April 2009. The lease includes three options to extend the term for five years each, and contains provisions for annual rent increases through each term. The Company also leases approximately 4,000 square feet in Santa Ana, California under a month-to-month lease at the monthly rental rate of \$3,072.

Minimum lease commitments are as follows:

|      |           |
|------|-----------|
| 2002 | \$518,481 |
|------|-----------|

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|                              |              |
|------------------------------|--------------|
| 2003                         | 531,444      |
| 2004                         | 544,730      |
| 2005                         | 558,348      |
| 2006                         | 572,307      |
| Thereafter                   | 1,958,285    |
|                              | -----        |
| Total minimum lease payments | \$ 4,683,595 |
|                              | =====        |

Rental expense aggregated \$545,360 and \$229,601 for 2001 and 2000, respectively.

### B. EMPLOYMENT AGREEMENTS:

On June 28, 2000, the Company entered into employment agreements with its Chief Executive Officer, Michael W. Brennan, President, Dr. Sueling Wang, Executive Vice President and Chief Financial Officer, Morris E. Van Asperen, and Vice President of Marketing and Sales Charles R. Allison. All four of the employment agreements have a 5 year term. The Company is obligated to pay Mr. Brennan and Dr. Wang annual salaries of \$150,000 with a guaranteed increase of 5% per annum over the term of the agreements. The Company is obligated to pay Mr. Van Asperen an annual salary of \$144,000 with a guaranteed increase of 5% over the term of his agreement. In addition to commissions earned under the Company's sales incentive program, the Company is obligated to pay Mr. Allison an annual salary of \$89,250 with a guaranteed increase of 5% per annum over the term of his agreement. Each employee may terminate the agreement upon 6 months notice to the Company. The Company may terminate each employee upon 6 months notice by the Company; provided, however, that the Company is obligated to pay to the employee his annual base salary, commissions or bonuses earned, and benefits for a period of 12 months after the date of such notice.

The employment agreements with the above named officers also commits the Company to purchasing for their benefit certain life insurance plans. For the year ended December 31, 2001, the Company did not have in place for either Mr. Brennan or Mr. Van Asperen such supplemental life insurance plans. The Company owns and is the beneficiary of a life insurance policy on Mr. Allison and maintains it to fund the deferred compensation agreement with Mr. Allison. Upon Mr. Allison's retirement, he, or his beneficiaries, are to receive 120 monthly payments of \$2,000 per month or, as provided, the net present value of any unpaid amounts. The life insurance premiums paid by the Company to fund Mr. Allison's deferred compensation agreement in 2001 and 2000 were \$21,977 and \$11,238, respectively. The Company pays the premiums and is the collateral assignee of four split dollar life insurance policies owned by Dr. Wang. Pursuant to the policies the Company will, upon his death or earlier liquidation of each such policy, be entitled to the refund of all premium payments made by the Company on the policies, and the balance of the proceeds will be paid to Mr. Wang's designated beneficiaries. The split dollar life insurance premiums were \$13,526 and \$8,253 during 2001 and 2000, respectively. The monies due from Dr. Wang in connection with these life insurance policies at the years ended December 31, 2001 and 2000 was \$112,103 and \$98,578, respectively.

### NOTE 13. SIGNIFICANT CUSTOMERS:

For the year ended December 31, 2001, three distributors/customers of imaging supplies accounted for 41%, 16% and 12% of net sales. For the year ended December 31, 2000, a reseller of imaging accounted for 57% of net sales. The Company does not have a written or oral contract with any of these customers. All sales are made through purchase orders.



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### NOTE 14. SIGNIFICANT SUPPLIERS:

For the years ended December 31, 2001 and 2000, the Company purchased 51% and 38%, respectively, of its raw materials, components and supplies from one supplier in connection with the sale of both printer and copier products. See also Note 10 B.

### NOTE 15. FINANCIAL REPORTING FOR BUSINESS SEGMENTS:

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 are as follows:

|                                  | 2001         | 2000         |
|----------------------------------|--------------|--------------|
|                                  | -----        | -----        |
| Sales to Unaffiliated Customers: |              |              |
| United States                    | \$23,030,483 | \$10,887,281 |
| Europe                           | 5,260,825    | 744,098      |
| Asia                             | 647,146      | 375,020      |
| All Other                        | 1,582,713    | 101,733      |
|                                  | -----        | -----        |
| Total                            | \$30,521,167 | \$12,108,132 |
|                                  | =====        | =====        |

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EXHIBIT A

### SUBSCRIPTION AGREEMENT

COLOR IMAGING, INC.

### COMMON STOCK

1. SUBSCRIPTION. Effective the \_\_\_\_ day of \_\_\_\_\_, 2002, the undersigned hereby applies to purchase: \_\_\_\_\_ (\_\_\_\_\_) shares of the common stock of Color Imaging, Inc. at a price of \$\_\_\_\_\_ per share, or a total purchase price of Dollars (\$\_\_\_\_\_);

such purchase being made in accordance with the terms and conditions of the prospectus, dated \_\_\_\_\_, 2002, according to which the shares have been offered to the undersigned. The undersigned understands that the minimum purchase is 100,000 shares. This subscription may be accepted or rejected in whole or in part by Color Imaging, Inc. We have the right, exercisable in our sole and absolute discretion, to accept subscriptions in any order we may determine.

2. REPRESENTATIONS BY UNDERSIGNED. The undersigned represents and warrants the following to be true and correct:

(a) the undersigned has received the prospectus dated \_\_\_\_\_, 2002.

(b) the undersigned acknowledges and understands that no U.S. federal or state agency, nor any governmental agency of any other jurisdiction, has made

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any recommendation or endorsement of the shares;

(c) the undersigned recognizes that acquisition of the shares as an investment involves a high degree of risk;

(d) if an individual, the undersigned is 18 years of age or over and is a bona fide resident of the state set forth in the residence address which such individual has set forth below; and

(e) all of the representations of the undersigned herein are true and accurate, and Color Imaging, Inc. will and may, without further investigation, rely on such representations.

3. PAYMENT OF SUBSCRIPTION. The amount of the undersigned's subscription is set forth below and the undersigned encloses payment of such amount herewith by a check, cashier's check or wired funds transfer, payable to "Color Imaging, Inc." The undersigned hereby authorizes and directs the officers and directors of Color Imaging, Inc. to deliver this subscription agreement to Color Imaging, Inc. and pay the funds delivered herewith to Color Imaging, Inc., to the extent that the undersigned's subscription has been accepted.

The undersigned recognizes that if the subscription is rejected in whole, the funds delivered herewith will be returned to the undersigned as soon as practicable without interest or deduction, which investment is subject to the discretion of the officers and directors of Color Imaging, Inc. If the undersigned's subscription is rejected in part, the funds delivered herewith will, to the extent the subscription is so rejected, be returned to the undersigned promptly without interest or deduction.

4. CONTINUING ACCURACY OF REPRESENTATIONS. The undersigned agrees to notify Color Imaging, Inc. immediately if any of the statements described above made herein shall become untrue. Until such notification is given, Color Imaging, Inc. and its officers and directors will be entitled to rely on the accuracy of the information set forth herein.

5. OWNERSHIP. The undersigned's interest will be owned and should be shown on Color Imaging, Inc.'s records as follows:

Name: \_\_\_\_\_

6. SUBSCRIPTION QUANTITY. The undersigned does hereby subscribe for \_\_\_\_\_ (\_\_\_\_) shares of Color Imaging, Inc.'s common stock at a price of \$\_\_\_\_\_ per share, for a total subscription price of \$\_\_\_\_\_, which amount is enclosed. [100,000 shares minimum purchase]

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IN WITNESS WHEREOF, the undersigned has executed this subscription agreement.

\_\_\_\_\_  
Name of Subscriber

\_\_\_\_\_  
Social Security or Tax I.D. Number

\_\_\_\_\_  
Name of Additional

\_\_\_\_\_  
Social Security or Tax I.D.

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Subscriber (if more than one)

Number of Additional Subscriber

Residence Address

Mailing Address (if different from  
Residence Address)

City and State

Zip Code

City and State

Zip Code

Home Telephone Number & Area Code

Business Telephone Number & Area Code

Form of Ownership (Circle One):

Individual  
Ownership

JTROS  
(all parties  
must sign)

Tenants  
In Common  
(both parties  
must sign)

Community  
Property  
(one signature  
required)

Custodian

Authorized Signature of Subscriber

Authorized Signature of Additional S

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No dealer, salesperson or other person has been authorized to give any information or to make any representations not contained in this prospectus in connection with the offering covered by this prospectus. If given or made, such information or representations must not be relied upon as having been authorized by Color Imaging, Inc., a selling stockholder, or any underwriter. This prospectus does not constitute an offer to sell, or a solicitation of any offer to buy, common stock in any jurisdiction to any person to whom, it is unlawful to make such an offer or solicitation in such jurisdiction. Neither the delivery of this prospectus nor any sale made under this prospectus shall, under any circumstances, create any implication that the information contained in this prospectus is correct as of any time after the date of the prospectus or that there has been no change in the affairs of Color Imaging, Inc. after the date of this prospectus.

COLOR IMAGING, INC.

UP TO

7,000,000 SHARES

AND

3,959,487 SHARES OFFERED

BY

SELLING STOCKHOLDERS

PROSPECTUS

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July \_\_\_\_, 2002

### PART II

#### ITEM 24. INDEMNIFICATION OF DIRECTORS AND OFFICERS

Section 145 of the Delaware General Corporation Law authorizes a corporation generally to indemnify any person ("indemnitee") who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding (other than an action by or in the right of the corporation) by reason of the fact that such person is or was a director, officer, employee or agent of the corporation, or is or was serving at the request of the corporation, in a similar position with another corporation or entity, against expenses (including attorneys' fees), judgments, fines and amounts paid in settlement actually and reasonably incurred by him in connection with such action, suit or proceeding if such person acted in good faith and in a manner such person reasonably believed to be in or not opposed to the best interests of the corporation and, with respect to any criminal action or proceeding, had no reasonable cause to believe such person's conduct was unlawful. With respect to actions or suits by or in the right of the corporation, however, an indemnitee who acted in good faith and in a manner such person reasonably believed to be in or not opposed to the best interests of the corporation is generally limited to attorneys' fees and other expenses, and no indemnification shall be made if such person is adjudged liable to the corporation unless and only to the extent that a court of competent jurisdiction determines that indemnification is appropriate. Section 145 further provides that any indemnification shall be made by the corporation only as authorized in each specific case upon a determination by the (i) stockholders, (ii) board of directors by a majority vote of directors who were not parties to such action, suit or proceeding or (iii) independent counsel, that indemnification of the indemnitee is proper because such has met the applicable standard of conduct. Section 145 provides that indemnification under its provisions is not exclusive of other rights of indemnification to which a person may be entitled under any by-law, agreement, vote of stockholders or disinterested directors or otherwise.

Our Certificate of Incorporation provides that we will indemnify, to the fullest extent permitted by law, any person or such person's heirs, executors and administrators who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative, by reason of the fact that such person is or was a director, officer, employee or agent of our company, or is or was serving at the our request as a director, officer, employee or agent of another corporation, partnership, joint venture, trust, or other enterprise, domestic or foreign, against expenses, attorneys' fees, court costs, judgments, fines, amounts paid in settlement and other losses actually and reasonably incurred by such person in connection with such action, suit or proceeding.

The Certificate of Incorporation also provides that none of our directors will be personally liable to us or our stockholders for monetary damages for any breach of fiduciary duty by such a director as a director other than for: (i) any breach of the director's duty of loyalty to us or our stockholders, (ii) acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law, (iii) liability under Section 174 of the General Corporation Law of Delaware, or (iv) any transaction from which such director derived an improper personal benefit.

#### ITEM 25. OTHER EXPENSES OF ISSUANCE AND DISTRIBUTION

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The following table sets forth an itemized estimate of fees and expenses payable by the registrant in connection with the offering described in this registration statement:

|                                      |           |
|--------------------------------------|-----------|
| SEC registration fee.....            | \$3,125   |
| Counsel fees and expenses.....       | \$125,000 |
| Accounting fees and expenses.....    | \$10,000  |
| Blue Sky fees and expenses.....      | \$3,000   |
| Printing expenses.....               | \$50,000  |
| Placement agent or similar fees..... | \$100,000 |
| Miscellaneous.....                   | \$8,875   |
| Total.....                           | \$300,000 |

All of the above expenses will be paid by the registrant.

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#### ITEM 26. RECENT SALES OF UNREGISTERED SECURITIES

On March 12, 2002, we issued in writing to a director, Dr. Sueling Wang, a unsecured promissory note bearing interest at 12% per annum all due March 12, 2003, in the amount of \$500,000 for a cash loan made to us by Dr. Wang. We borrowed this amount to meet a supplier commitment for product. The promissory note is not convertible into shares of our common stock, and the sale and issuance of the note was exempt from the registration provisions of the Securities Act of 1933, as amended (the "Act") pursuant to Section 4(2) thereof.

In February 2002, warrants to purchase 1,750 shares of our common stock, which were previously issued on October 26, 2002, in connection with 1,750 Units subscribed to in our private placement for cash at \$2.00 per unit, were exercised via a cashless exercise resulting in the issuance of 705 shares of common stock. The issuance of the shares upon exercise of the previously issued warrants was exempt from registration provisions of the Act pursuant to Section 4(2) thereof.

During March 2002, we rescinded two transactions for the sale of our common stock and warrants to purchase additional shares of our common stock totaling 1,025,000 and 525,000, respectively. The purchasers paid the par value in cash for the shares issued to them, and the balance of the purchase price consisted of recourse promissory notes. The sale of 1,000,000 shares of our common stock and warrants to purchase an additional 500,000 shares of common stock was, per agreement, subject to our registering the securities for resale. However, the SEC staff took the position that these securities could not be registered for resale in this registration statement and the transaction was rescinded, the shares, warrant and promissory note were cancelled and we retained the \$10,000 and accrued interest earned thereon in consideration of our expenses incurred in connection with the transaction. The second transaction for 25,000 shares of our common stock and warrants to purchase an additional 25,000 shares of our common stock was rescinded when the parties believed the promissory note would not be paid by the time this registration statement became effective. The shares,

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warrant and promissory note were cancelled and the cash consideration was refunded the purchaser.

On March 12, 2002, Industricorp & Co. Inc. FBO David N. Kunz IRA Rollover paid the \$49,500 due us under a non-interest bearing, recourse, promissory note made December 19, 2001, for the purchase by it at \$2.00 a Unit of 25,000 Units in our private placement completed in December 2001. Each Unit consisted of one share of our common stock and a warrant to purchase one share of our common stock at an exercise price of \$2.00. The \$49,500 payment, together with \$500 paid at the time of Industricorp & Co. Inc. FBO David N. Kunz IRA Rollover's subscription to our private placement, was its payment in full for the 25,000 Units purchased by them.

On January 30, 2002, Jui-Hung Wang paid the \$99,500 due us under a non-interest bearing, recourse, promissory note made December 24, 2001, for the purchase by him at \$2.00 a Unit of 50,000 Units in our private placement completed in December 2001. Each Unit consisted of one share of our common stock and a warrant to purchase one share of our common stock at an exercise price of \$2.00. The \$99,500 payment, together with \$500 paid at the time of Mr. Wang's subscription to our private placement, was his payment in full for the 50,000 Units purchased by him.

From October 22, 2000 through December 24, 2001, we sold 1,882,710 Units at \$2.00 per Unit to less than 35 purchasers in a private placement raising \$3,765,420. Each Unit consisted of one share of our common stock and one warrant to purchase one share of our common stock for \$2.00. We also issued 1,312,960 additional warrants at no cost to investors in our private placement whose aggregate investment was at least \$300,000 which includes 12,960 warrants issued to one investor for services rendered in connection with the private placement. Through May 24, 2002, a total of 2,464,250 warrants have been exercised on a cashless basis and we have in turn issued 1,105,520 shares of our common stock. The issuance of the shares and warrants to purchase our common shares was exempt from registration pursuant to the provisions of Section 4(2) of the Securities Act of 1933.

On June 11, 2001, we issued 10,000 shares of our common stock to The Blaine Group, Inc. as consideration for \$25,000 in services. The issuance of the shares and warrants to purchase our common shares was exempt from registration pursuant to the provisions of Section 4(2) of the Securities Act of 1933.

In June 2000, Color Imaging, Inc. (formerly known as Advatex Associates, Inc.) in connection with the merger described in the prospectus issued 3,000,000 shares of our common stock to the stockholders of Color Image, Inc. in exchange for 200,000 shares of Color Image, Inc. (Image) common stock and 3,000,000 shares of our common stock to the stockholders of Logical Imaging Solutions, Inc. (Logical) in exchange for 1,622,999 shares of common stock of Logical Imaging Solutions. We also issued upon the consummation of the merger in June 2000 to G-V Capital Corp., advisers to the merger, for services rendered by them from January through June 2000, 100,000 shares of our common stock and warrants to purchase 100,000 shares of our common stock at an exercise price of \$2.00, expiring July 10, 2005. Additionally, we issued, in connection with the merger, warrants to purchase 271,719 shares of our common stock at an exercise price of \$2.70 per share in exchange for warrants to purchase 147,000 shares of Logical Imaging Solutions' common stock at an exercise price of \$5.00. The issuance of our common stock and the common stock upon warrant exercise in connection with these transactions was exempt from the registration provisions of the Act pursuant to Section 4(2) thereof.

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## ITEM 27. EXHIBITS

### Exhibit

| Exhibit<br>No.<br>----- | Description<br>-----  |
|-------------------------|---|
| 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   |
| 3.1+                    | Certificate of Incorporation.   |
| 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  |
| 4.2*                    | Promissory Note of Wall Street Consulting Corp. dated October 30, 2001  |
| 4.3*                    | Form of Warrant issued to Selling Stockholders  |
| 4.4*                    | Loan and Security Agreement between Color Imaging and Southtrust Bank dated May 5, 2000   |
| 4.5*                    | Amendment of Loan Documents between Color Imaging and SouthTrust Bank dated August 30, 2000   |
| 4.6*                    | Second Amendment of Loan Documents between Color Imaging and SouthTrust Bank dated November 30, 2000  |
| 4.7*                    | Third Amendment of Loan Documents between Color Imaging and SouthTrust Bank dated June 30, 2001   |
| 4.8*                    | Fourth Amendment of Loan Documents between Color Imaging and SouthTrust Bank dated November 1, 2001   |
| 4.9*                    | Fifth Amendment of Loan Documents between Color Imaging and SouthTrust Bank dated December 31, 2001   |
| 4.10*                   | Sixth Amendment of Loan Documents between Color Imaging and Southtrust Bank dated February 7, 2002  |
| 4.11*                   | \$500,000 Line of Credit Promissory Note issued to Southtrust Bank dated May 5, 2000  |
| 4.12*                   | \$500,000 Amended and Restated Line of Credit Promissory Note issued to Southtrust Bank dated August 30, 2000   |
| 4.13*                   | \$500,000 Revolving Note Modification Agreement dated November 30, 2000   |
| 4.14*                   | \$500,000 Second Revolving Note Modification Agreement dated July 5, 2001   |
| 4.15*                   | \$1,500,000 Revolving Note between Color Imaging and SouthTrust Bank dated June 24, 1999  |
| 4.16*                   | \$1,500,000 Revolving Note Modification Agreement between Color Imaging and SouthTrust Bank dated May 5, 2000   |
| 4.17*                   | \$1,500,000 Second Revolving Note Modification Agreement between Color Imaging and SouthTrust Bank dated August 30, 2000  |
| 4.18*                   | \$1,500,000 Third Revolving Note Modification Agreement between Color Imaging and SouthTrust Bank dated November 30, 2000   |
| 4.19*                   | \$1,500,000 Fourth Revolving Note Modification Agreement between Color Imaging and SouthTrust Bank dated July 5, 2001   |
| 4.20*                   | \$2,500,000 Fifth Revolving Note Modification Agreement between Color Imaging and SouthTrust Bank dated December 31, 2001   |
| 4.21*                   | \$1,752,000 Installment Note between Color Imaging and SouthTrust Bank dated June 24, 1999  |
| 4.22*                   | \$1,752,000 Term Loan Documents Modification Agreement between Color Imaging and SouthTrust Bank dated August 30, 2000  |

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4.23\* SouthTrust Bank waiver letter dated March 26, 2001  
 4.24\* SouthTrust Bank waiver letter dated May 8, 2001  
 4.25\* SouthTrust Bank waiver letter dated August 13, 2001  
 4.26\* SouthTrust Bank waiver letter dated October 31, 2001  
 4.27\* Development Authority of Gwinnett County, Georgia Industrial Development Trust Indenture dated June 1, 1999  
 4.28\* Loan Agreement between the Company, Kings Brothers LLC and the Development Authority of Gwinnett County, Georgia dated June 1, 1999

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### Exhibit

| No.   | Description   |
|-------|---|
| ----- | -----   |
| 4.29* | 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                  |
| 4.30* | 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 |
| 4.31* | Master Security Agreement between Color Imaging and General Electric Capital Corporation dated November 30, 2000  |
| 4.32* | Promissory Note issued to General Electric Capital Corporation dated November 30, 2000  |
| 4.33* | \$200,000 Promissory Note between Color Imaging and Kings Brothers LLC dated November 19, 2001  |
| 4.34* | \$500,000 Promissory Note between Color Imaging and Sueling Wang dated March 14, 2002   |
| 4.35* | \$240,000 Promissory Note between Color Imaging and Kings Brothers LLC dated July 6, 2000.  |
| 4.36* | \$50,000 Promissory Note between the Company and Daniel Wang dated October 23, 1998.  |
| 4.37* | \$112,000 Promissory Note between Color Imaging and Daniel Wang dated October 16, 1998.   |
| 4.38* | \$90,000 Promissory Note between Color Imaging and Michael Wang dated June 4, 1999.   |
| 4.39* | \$150,000 Promissory Note between Color Imaging and AccuRec LLC dated February 3, 2000.   |
| 4.40* | \$200,000 Promissory Note between Color Imaging and AccuRec LLC dated March 7, 2000.  |
| 4.41* | \$200,000 Promissory Note between Color Imaging and AccuRec LLC dated April 10, 2000.   |
| 4.42* | \$200,000 Promissory Note between Color Imaging and AccuRec LLC dated May 2, 2000.  |
| 4.43* | \$500,000 Promissory Note between Color Imaging and AccuRec LLC dated July 5, 2000.   |
| 4.44* | \$200,000 Promissory Note between Color Imaging and AccuRec LLC dated September 14, 2000.   |
| 4.45* | \$200,000 Promissory Note between Color Imaging and AccuRec LLC dated October 4, 2000.  |
| 4.46* | \$200,000 Promissory Note between Color Imaging and AccuRec LLC dated November 3, 2000.   |
| 4.47+ | Seventh Amendment of Loan Documents between Color Imaging and SouthTrust Bank dated June 28, 2002.  |
| 4.48+ | \$2,500,000 Sixth Revolving Note Modification Agreement between Color Imaging and SouthTrust Bank.  |
| 5+    | Form of Opinion of Arnall Golden Gregory LLP regarding legality.  |
| 10.1* | Employment Agreement between Color Imaging and Michael W. Brennan dated June 28, 2000   |
| 10.2* | Employment Agreement between Color Imaging and Dr. Sueling Wang dated   |



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- June 28, 2000
- 10.3\* Employment Agreement between the Company and Morris E. Van Asperen dated June 28, 2000
- 10.4\* Employment Agreement between Color Imaging and Charles R. Allison dated June 30, 2000
- 10.5\* Lease Agreement between Color Imaging and Kings Brothers LLC dated April 1, 1999
- 10.6\* Amendment No. 1 to Lease Agreement between the Company and Kings Brothers LLC dated April 1, 1999
- 10.7 Form of Subscription Agreement (Incorporated by reference to Exhibit A to the Registrant's Registration Statement on Form SB-2 filed July 15, 2002, 2002.
- 21.1\* Subsidiary of Registrant.
- 23.1\* Consent of Arnall Golden Gregory LLP. (included as part of Exhibit 5 hereto)
- 23.2\* Consent of Lazar Levine & Felix LLP
- 24\* Power of Attorney (included as part of the signature page hereto).
- 99.1\* Report of Grant Thornton LLP for the Company's fiscal year ended December 31, 1999
- 99.2\* Rescission Agreement between Joe Daley & Sons, Inc. and Color Imaging dated March 20, 2002
- 99.3\* Rescission Agreement between Wall Street Consulting Corp. and the Company dated March 19, 2002

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\* Previously filed

+ Filed herewith.

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### ITEM 28. UNDERTAKINGS

The undersigned registrant hereby undertakes:

(1) To file, during any period in which offers or sales are being made, a post-effective amendment to this registration statement:

(i) To include any prospectus required by Section 10(a)(3) of the Securities Act of 1933;

(ii) To reflect in the prospectus any facts or events arising after the effective date of the registration statement (or the most recent post-effective amendment thereof) which, individually or in the aggregate, represent a fundamental change in the information set forth in the registration statement. Notwithstanding the foregoing, any increase or decrease in volume of securities offered (if the total dollar value of securities offered would not exceed that which was registered) and any deviation from the low or high end of the estimated maximum offering range may be reflected in the form of prospectus filed with the Commission pursuant to Rule 424(b) if, in the aggregate, the changes in volume and price represent no more than a 20 percent change in the maximum aggregate offering price set forth in the "Calculation of Registration Fee" table in the effective registration statement;

(iii) To include any material information with respect to the plan of distribution not previously disclosed in the registration statement or any material change to such information in the registration statement;

(2) That, for the purpose of determining any liability under the Securities Act of 1933, each such post-effective amendment shall be deemed to be a new

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registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

(3) To remove from registration by means of a post-effective amendment any of the securities being registered which remain unsold at the termination of the offering.

(4) Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to directors, officers and controlling persons of the registrant pursuant to the provisions described in Item 24, or otherwise, the registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Securities Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the registrant of expenses incurred or paid by a director, officer or controlling person of the registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Securities Act and will be governed by the final adjudication of such issue.

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### SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, the registrant certifies that it has reasonable grounds to believe that it meets all of the requirements for filing on Form SB-2 and has duly caused this Registration Statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Norcross, State of Georgia, on this 26 day of July, 2002.

COLOR IMAGING, INC.

By: /s/ Sueling Wang, Ph.D.

-----  
Sueling Wang, Ph.D., President

Pursuant to the requirements of the Securities Act of 1933, this Registration Statement has been signed by the following persons in the capacities and on the dates indicated. Each person whose signature appears below hereby constitutes and appoints Sueling Wang, Ph.D. and Morris E. Van Asperen, or either of them, as such person's true and lawful attorney-in-fact and agent with full power of substitution for such person and in such person's name, place and stead, in any and all capacities, to sign and to file with the Securities and Exchange Commission, any and all amendments and post-effective amendments to this Registration Statement, with exhibits thereto and other documents in connection therewith, granting unto said attorney-in-fact and agent full power and authority to do and perform each and every act and thing requisite and necessary to be done in and about the premises, as fully to all intents and purposes as such person might or could do in person, hereby ratifying and confirming all that said attorney-in-fact and agent, or any substitute therefor, may lawfully do or cause to be done by virtue thereof.

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| SIGNATURE   | TITLE  |
|---|--|
| /s/ Jui-Hung Wang<br>-----<br>Jui-Hung Wang                 | Chairman of the Board and Director   |
| /s/ Sueling Wang Ph.D.<br>-----<br>Sueling Wang, Ph.D.      | President and Vice-Chairman of the Board (Principal Executive Officer)   |
| /s/ Morris E. Van Asperen<br>-----<br>Morris E. Van Asperen | Executive Vice President, Chief Financial Officer (Principal Financial and Accounting Officer), Secretary and Director |
| /s/ Charles R. Allison<br>-----<br>Charles R. Allison       | Vice President and Director  |
| /s/ Michael W. Brennan<br>-----<br>Michael W. Brennan       | Director   |
| /s/ Edwin C. St. Amour<br>-----<br>Edwin C. St. Amour       | Director   |
| -----<br>Robert L. Langsam                                  | Director   |
| /s/ Jui-Chi Wang<br>-----<br>Jui-Chi Wang                   | Director   |
| /s/ Jui-Kung Wang<br>-----<br>Jui-Kung Wang                 | Director   |
| /s/ Victor A. Hollander<br>-----<br>Victor A. Hollander     | Director   |

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