COLOR IMAGING INC
Form 10-Q/A
May 11, 2005

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

FORM 10-Q/A
Amendment No. 1

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2005

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from to

Commission File Number: 0-18450

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

DELAWARE	13-3453420
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

4350 PEACHTREE INDUSTRIAL BOULEVARD, SUITE 100 NORCROSS, GEORGIA 30071	30071
(Address of principal executive offices)	(Zip code)

(770) 840-1090 FAX (770) 242-3494
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes X No

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Securities Exchange Act of 1934). Yes __ No X --

As of April 20, 2005, there were12,690,305 shares of Common Stock outstanding.

COLOR IMAGING, INC.
QUARTERLY REPORT ON FORM 10-Q
FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2005

We are filing this Amendment No. 1 to our Form 10-Q for the quarter ended March 31, 2005, filed with the Securities and Exchange Commission (the "SEC") on April 22, 2005 (the "Original Filing") to correct a typographical error on the Statement of Cash Flows. The Deferred Income Taxes in the cash flows from operating activities section of the statement was erroneously reported as $121,800 and should have been reported as $101,800.

As a result of these amendments, the certifications pursuant to Section 302 and Section 906 of the Sarbanes-Oxley Act of 2002, filed as exhibits to the Original Filing, have been re-executed and refiled as of the date of this Form 10-Q/A. Except for the amendments described above, this Form 10-Q/A does not modify or update the other disclosures in, or exhibits to, the Original Filing.

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PART I: FINANCIAL INFORMATION

ITEM 1 -FINANCIAL STATEMENTS

COLOR IMAGING, INC.
CONDENSED BALANCE SHEETS

	31-Mar-05 (Unaudited)
- ASSETS -	
CURRENT ASSETS:	
Cash	$ 1,918,745
Accounts receivable - net of allowance for doubtful accounts of $93,965 and $93,201 for 2005 and 2004, respectively	2,780,078
Inventories	5,331,472
Related party portion of IDR bond - current	--
Other current assets	106,427
TOTAL CURRENT ASSETS	10,136,722
PROPERTY, PLANT AND EQUIPMENT - NET	6,645,942
OTHER ASSETS:	
Related party portion of IDR bond	--
Deferred expense re: potential transactions	33,936
Other assets	23,871
	57,807
	$ 16,840,471
- LIABILITIES & STOCKHOLDERS' EQUITY -	
CURRENT LIABILITIES:	
Revolving credit lines	$ --
Accounts payable	2,145,547
Current portion of notes payable	6,192
Current portion of notes payable - related parties	--
Current portion of bonds payable	--
Other current liabilities	28,130
TOTAL CURRENT LIABILITIES	2,179,869
LONG TERM LIABILITIES:	
Notes payable	3,844
Bonds payable	2,075,000
Deferred tax liability	704,250
TOTAL LONG TERM LIABILITIES	2,783,094
TOTAL LIABILITIES	4,962,963
COMMITMENTS & CONTINGENCIES	
STOCKHOLDERS' EQUITY:	
Common stock, $.01 par value, authorized 20,000,000 shares; 12,690,305 shares issued and outstanding at 2005 and 2004	126,903

Additional paid-in capital	12,681,472
Accumulated deficit	(930,867)
	11,877,508
	$ 16,840,471

See notes to consolidated financial statements.

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

	THREE MONTHS ENDED MARCH 31,	
	2005	2004
SALES	$ 5,628,987	$ 5,601,217
COST OF SALES	3,832,067	4,195,184
GROSS PROFIT	1,796,920	1,406,033
OPERATING EXPENSES		
Administrative	436,605	396,668
Research & development	293,897	310,176
Sales & marketing	761,248	598,084
	1,491,750	1,304,928
INCOME FROM OPERATIONS	305,170	101,105
OTHER INCOME (EXPENSE)		
Other income	41,848	93,580
Financing expenses	(24,177)	(23,955)
	17,671	69,625
INCOME BEFORE PROVISION FOR INCOME TAXES	322,841	170,730
PROVISION FOR INCOME TAXES	101,800	68,200
NET INCOME	$ 221,041	$ 102,530

INCOME PER COMMON SHARE

Basic	$ .02	$ .01
Diluted	$ .02	$ .01
WEIGHTED AVERAGE SHARES OUTSTANDING		
Basic	12,690,305	12,730,505
Assumed conversion	2,128	17,857
Diluted	12,692,433	12,748,362

See accompanying notes

COLOR IMAGING, INC.
CONDENSED STATEMENTS OF CASH FLOWS
(UNAUDITED)

	THREE MONTHS ENDED MARCH 31,	
	2005	2004
Cash flows from operating activities:		
Net income	$ 221,041	$ 102,530
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	152,552	148,404
Deferred income taxes	101,800	66,950
Decrease (increase) in:		
Accounts receivable and other receivables	(367,724)	(469,617)
Inventories	(476,533)	(32,343)
Prepaid expenses and other assets	651,612	305,320
Increase (decrease) in:		
Accounts payable and accrued liabilities	540,895	(527,299)
Net cash provided by (used in) operations	823,643	(406,055)
Cash flows (used in) investing activities:		
Capital expenditures	(196,662)	(125,338)
Other asset re: potential transaction	(10,364)	--
Net cash (used in) investing activities	(207,026)	(125,338)
Cash flows from financing activities:		
Repurchase of common shares and warrants	--	(13,105)
Net (payments) under related party borrowings	(67,816)	(97,315)
Net (payments) under IDR Bond	(650,000)	--
Principal payments of long-term debt	(1,473)	(1,361)
Deferred costs re: potential transaction	(23,572)	--

Net cash (used in) financing activities	(742,861)	(111,781)
Net (decrease) in cash	(126,244)	(643,174)
Cash at beginning of year	2,044,989	2,213,830
Cash at end of period	$ 1,918,745	$ 1,570,656
Supplemental disclosure of cash flow Information:		
Cash paid during the period for:		
Interest and financing expense	$ 20,633	$ 20,411
Income taxes	$ 0	$ 0

See accompanying notes

COLOR IMAGING, INC.
NOTES TO INTERIM CONDENSED FINANCIAL STATEMENTS
March 31, 2005
(Unaudited)

NOTE 1. BASIS OF PRESENTATION

The accompanying unaudited interim condensed financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and with the instructions to Form 10-Q. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals and adjustments) considered necessary for a fair presentation have been included. Operating results for the three months ended March 31, 2005 are not necessarily indicative of the results that may be expected for the year ended December 31, 2005

NOTE 2. COMMON STOCK AND EQUIVALENTS

In accordance with the provisions of SFAS No. 148, the Company has elected to continue applying the intrinsic value approach under APB No. 25 in accounting for its stock-based compensation plans. Accordingly, the Company does not recognize compensation expense for stock options when the exercise price at the grant date is equal to or greater than the fair market value of the stock at that date. The Company generally recognizes compensation expense only when it grants options with a discounted exercise price, at which time any resulting compensation expense is recognized ratably over the associated service period, which is generally the option vesting term.

During the three months ended March 31, 2005 and 2004, the Company did not grant any options to employees and on March 31, 2005 options granted to an employee to purchase 10,000 shares of the Company's common stock at an exercise price of $.54 per share lapsed. The fair value of option granted is estimated on the date

of the grant using the Black-Scholes option-pricing model. For purposes of pro forma disclosures, the estimated fair value of the options is amortized over the average vesting period of the options.

The following table illustrates the effect on net income and net income per share as if the fair value based method had been applied to all outstanding and vested awards in each period:

	THREE MONTHS MARCH 31,	
	2005	2004
Net income, as reported	$ 251,041	$ 102,530
Less: Pro forma stock based compensation expense - net of tax	20,846	24,766
Pro forma net income	$ 230,195	$ 77,764
Basic Earnings per share:		
As reported	$ 0.02	$ 0.01
Pro forma	$ 0.02	$ 0.01
Diluted Earnings per share:		
As reported	$ 0.02	$ 0.01
Pro forma	$ 0.02	$ 0.01

In computing the number of options exercisable, shares of common stock subject to options or warrants that are currently exercisable or will become exercisable within 60 days of the date of this report are deemed outstanding. The following is a summary of total outstanding and exercisable options and stock warrants at March 31, 2005:

	Options and Warrants Outstanding			Options an
Range of Exercise Prices	Number	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Life	Number
Options $0.45-$2.75	1,410,000	$1.59	3.29 years	1,037,500
Warrants $2.00	100,000	$2.00	0.28 years	100,000
Options and warrants	1,510,000	$1.62	3.09 years	1,137,500

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NOTE 3. INVENTORIES

Inventories consisted of the following components as of March 31, 2005 and December 31, 2004:

	March 31, 2005	December 31, 2004
Raw materials	$ 1,309,732	$ 945,311

Work-in-process	1,776,835	1,464,875
Finished goods	2,373,632	2,526,370
Obsolescence allowance	(128,727)	(81,617)
Total	$ 5,331,472	$ 4,854,939

NOTE 4. CHANGES TO BORROWING ARRANGEMENTS

The Company has a $1.5 million revolving line of credit, as amended, with an outstanding balance as of March 31, 2005 of $0, bearing interest at the one-month Libor interest rate in effect two business days before the first day of the month plus 2.50%. As of March 31, 2005, the interest rate was the one-month Libor rate of 2.86% plus 2.50% (5.36%). This revolving line of credit has a June 30, 2005 expiration date.

Under the line of credit, the Company is permitted to borrow up to 75% of eligible accounts receivable and 50% of eligible inventories (up to a maximum of $750,000 and not to exceed 50% of the total outstanding). On February 6, 2004, the Bank issued an irrevocable standby letter of credit in the amount of $1.5 million for the benefit of a non-affiliated foreign supplier. The letter of credit has an expiration date of June 30, 2005. On January 5, 2005, the irrevocable standby letter of credit was amended and reduced by $500,000 to $1 million. The Company has granted the Bank a security interest in all of the Company's assets as security for the repayment of the line of credit and the obligations under the letter of credit. The Bank agreement also contains various covenants that the Company is required to maintain, and as of March 31, 2005, the Company was in compliance with these covenants.

NOTE 5. SIGNIFICANT CUSTOMERS

In the three month period ended March 31, 2005, one customer accounted for 16% of net sales. The Company does not have a written or oral contract with this customer. All sales are made through purchase orders. Accounts receivable from this customer at March 31, 2005, was $287,700.

NOTE 6. SIGNIFICANT SUPPLIERS

In the three months ended March 31, 2005, the Company purchased 28% and 23% of its raw materials, components and supplies from two foreign suppliers with the former being an affiliate. On February 6, 2004, the Company's Bank issued on behalf of the Company an irrevocable standby letter of credit in the amount of $1.5 million for the benefit of its largest non-affiliated foreign supplier. On January 5, 2005, the irrevocable standby letter of credit was amended and reduced by $500,000 to $1 million. At March 31, 2005, accounts payable to these suppliers were $653,352 and $438,152, respectively (see also Note 8).

NOTE 7. 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 from continuing operations for the three-month periods ended March 31 are as follows:

	2005	%	2004	%
Sales to Unaffiliated Customers:				
United States	$ 2,632,341	47%	$ 3,182,361	57%
Europe	1,900,150	34%	1,222,352	22%
Mexico	592,967	10%	808,546	14%
Asia	260,450	5%	260,518	5%

All Others	243,079	4%	127,440	2%
Total	$ 5,628,987	100%	$ 5,601,217	100%

NOTE 8. RELATED PARTY TRANSACTIONS:

(A) LEASE:

Directors, Jui-Hung Wang, Jui-Kung Wang, Sueling Wang and Jui-Chi Wang, own Kings Brothers, LLC, the landlord from which the Company leases its Norcross, Georgia, plant. The real property lease agreement between the Company and Kings Brothers, LLC, was entered into on April 1, 1999, and was amended on February 5, 2003, extending the expiration date from March 31, 2009 to March 31, 2013. The rental payments for quarter ended March 31, 2005, were $139,587.

(B) 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 Kings Brothers, LLC. The 2.27% revenue bonds, 3.27% inclusive of the 1% letter of credit fee, as of March 31, 2005, are payable in varying annual principal and monthly interest payments through July 2019. The bond is secured, as amended on April 7, 2003, by specific equipment assets of the Company and by real property owned by Kings Brothers, LLC. The bonds, along with the line of credit and term loan, are held by two related financial institutions.

A loan agreement between the Authority and the Company and Kings Brothers, LLC 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 Kings Brothers, LLC 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 Kings Brothers, LLC, 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 Kings Brothers, LLC is responsible to the Company is reflected in current and other assets of the Company. On March 8, 2005, Kings Brothers, LLC prepaid the then outstanding principal balance attributable to it in the amount of $647,460, and per the amendment to the Joint Debtor Agreement as of that date between the Company and Kings Brothers the prepayment was first applied to the principal due under the bond in the amount of $390,000 on July 1, 2005. Kings Brothers, LLC amounts owed to the Authority are secured by a lien on the real property leased by the Company and by a personal guarantee, as amended, executed by Director and President of the Company, Sueling Wang. As of March 31, 2005, the bond principal outstanding was $2,075,000 and the portion due from Kings Brothers, LLC was $0.

(C) PURCHASES:

The Company purchased from an affiliate for the three months ended March 31, 2005, $961,012 of all in one imaging cartridges, injection molded cartridges and bottles for copiers and laser printers. Accounts payable to the affiliate at March 31, 2005, was $653,352. See also Note 6.

(D) MARKETING AND LICENSE AGREEMENT:

On June 1, 2003, the Company entered into a Marketing and Licensing Agreement

with its foreign affiliate. Per the Marketing and Licensing Agreement the affiliate agrees to indemnify and hold harmless the Company for any costs and expenses arising from any defective licensed product, and/or any recalled licensed product including litigation arising therefrom. Further the affiliate agrees to credit the Company for product cost, shipping and related expenses arising from any defective licensed product, and/or any recalled licensed product. Effective April 1, 2004, the parties agreed to amend the Marketing and Licensing Agreement to reduce the costs of the product to the Company and to include a royalty payment by the Company to the affiliate based on the net profit realized upon the sale of the products, after certain marketing expenses of the Company. Royalty payments for the three months ended March 31, 2005, were $26,558.

(E) NOTES PAYABLE:

On March 14, 2002, the Company borrowed $500,000 from director, Sueling Wang, on an unsecured basis. The interest rate on the loan was 12% per annum, matured on March 14, 2003 and was evidenced in writing. On September 2, 2002, the note was modified to extend the term to March 1, 2005, provide for a $100,000 principal payment, decrease the interest rate to 6% per annum and provide for interest only payments through February 28, 2003 and 24 monthly payments of principal with interest extra beginning on April 1, 2003, in the amount of $7,500. The Company borrowed the $500,000 to meet a supplier commitment for product. Principal and interest paid Sueling Wang on the note for the quarter ended March 31, 2005 was $15,000 and $149, respectively. As of March 31, 2005 the principal outstanding was $0.

On August 21, 2002, the Company borrowed $100,000 from director, Jui-Chi Wang, on an unsecured basis. The loan bears interest at the rate of 6% per annum, matured on March 1, 2005 and was evidenced in writing. The Company borrowed this amount in order to repay $100,000 borrowed from director Sueling Wang on March 14, 2002. The note is interest only through February 28, 2003, and then is fully amortizing over 24 months with principal and interest payments payable monthly beginning April 1, 2003 in the amount of $4,434. Principal and interest paid Jui-Chi Wang on the note for the quarter ended March 31, 2005 was $8,803 and $65, respectively. As of March 31, 2005 the principal outstanding was $0.

NOTE 8. RELATED PARTY TRANSACTIONS (CONTINUED):

(E) NOTES PAYABLE (CONTINUED):

On August 21 and September 2, 2002, the Company borrowed $200,000 and $300,000, respectively, from director, Jui-Hung Wang, on an unsecured basis. The loan bears interest at the rate of 6% per annum, matured on March 1, 2005 and was evidenced in writing. The Company borrowed this amount in order to make a principal payment due on its industrial development bond in the approximate amount of $255,000, for the acquisition of capital equipment in the approximate amount of $125,000 and for general corporate purposes. The note is interest only through February 28, 2003, and then is fully amortizing over 24 months with principal and interest payments payable monthly beginning April 1, 2003 in the amount of $22,170. Principal and interest paid Jui-Hung Wang on the note for the quarter ended March 31, 2005 was $44,013 and $326, respectively. As of March 31, 2005 the principal outstanding was $0.

(F) COMMON STOCK

On March 6, 2003, the Company received from Chi Fu Investment Co Ltd $6,075,000 of subscription proceeds for the public sale of 4,500,000 of its common shares

at a price of $1.35 per share in its offering on Form SB-2 filed with the Securities and Exchange Commission. Chi Fu Investment Co Ltd is a wholly owned subsidiary of the Company's affiliate, General Plastic Industrial Co., Ltd, and as of March 31, 2005, Company directors Jui-Hung Wang, Jui-Chi Wang and Jui-Kung Wang each owned 8.0%, 8.4% and 1.8%, respectively, of General Plastic Industrial Co., Ltd.

NOTE 9. SUBSEQUENT EVENT

On April 14, 2005, Company's Board of Directors approved a reverse split of the Company's common stock, with cash payments for fractional shares held by stockholders with less than one whole share, to be followed immediately by a forward split at the same ratio to effect a going private transaction. The Company has had less than 300 stockholders of record since last year, and if the transaction is approved by the Company's stockholders at its next annual meeting and implemented, it would enable the Company to voluntarily terminate the registration of its Common Stock under the Securities Exchange Act of 1934 and go private. The going private transaction is subject to conditions and uncertainties, including stockholder approval, the Board's determination to proceed with the reverse stock split, the conditions of the consent of the Company's lender and the Company's ability to fund the payment for fractional shares. .

ITEM 2.

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

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

BACKGROUND

Color Imaging, 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 on June 28, 2000, 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, stockholders of Logical Imaging Solutions and Color Image exchanged their shares for shares of common stock of Advatex. Logical Imaging Solutions stockholders 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 stockholders 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 stockholders, stockholders of Logical Imaging Solutions and Color Image owned approximately 85% of the outstanding shares of common stock of Advatex and stockholders 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 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. On September 11, 2002, we entered into a share exchange agreement with Digital Color Print, Inc. and four of our directors to divest our wholly owned subsidiary, Logical Imaging Solutions, Inc. On September 30, 2002, the share exchange transaction was completed and Color Imaging disposed of its wholly-owned subsidiary, Logical Imaging Solutions, Inc., in a common stock share exchange with Digital Color Print, Inc., which is owned by four former directors for 1.7 million shares of our common stock and warrants to purchase up to 15% of the common stock of Digital Color Print or Logical Imaging Solutions. 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. As the result of our disposing of Logical Imaging Solutions, Inc. we no longer offer printing systems to commercial printers nor the support services and consumables related thereto. As a further result of Color Imaging's divestiture of Logical Imaging Solutions, our investments in the furthering of Logical Imaging Solutions' technologies and carrying its operations have ceased. Significantly, since the merger on June 28, 2000, Color Imaging had invested approximately $2.35 million in the operations of Logical Imaging Solutions and the development of its technologies.

COLOR IMAGING, INC.

Since 1989, Color Imaging has developed, manufactured and marketed products used in electronic printing. Color Imaging formulates and manufactures black text and specialty toners, including color and magnetic character recognition toners for numerous digital and analog photocopiers, laser printers and facsimile machines. Color Imaging's toners permit the photocopying and 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 and imaging drums.

Color Imaging has continually expanded its product line and manufacturing capabilities. This expansion has led to the creation and marketing of black text, color, magnetic character recognition and specialty toner formulations, including aftermarket toners and imaging products for printers and facsimile machines manufactured by Brother(TM), Canon(TM), Fuji-Xerox(TM), Hewlett Packard(TM), Lexmark(TM), Kyocera(TM), Minolta(TM), Okidata(TM). Color Imaging also manufactures and/or markets toners for use in Canon(TM), Gestetner(TM), Kyocera/Mita(TM), Konica(TM), Lanier(TM), Minolta(TM), Ricoh(TM), Savin(TM), Sharp(TM), Toshiba(TM), Xerox(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 original equipment manufacturers ("OEMs") and its aftermarket products worldwide to distributors and re-manufacturers of laser printer toner cartridges and to distributors and dealers of copier products.

Our strategy for growing revenue and operating profit is to expand, including through strategic acquisition(s), our printer and copier products business. The key elements of our strategy are (1) increasing vertical integration by supplying complete toner and cartridge devices, (2) capitalizing on our research and development expertise of producing specialty, color and digital copier and or multifunctional device toners, (3) exploiting the efficiencies associated with the investment made in manufacturing facilities, (4) expanding our sources for products from strategic suppliers that we can add value to or resell and that complement our product lines, (5) increasing international sales and (6)

increasing our copier distributor and dealer customer base.

RECENT DEVELOPMENTS

Business Color Products

Business color (meaning copiers or printers with a separate "black" color as well as the three primary colors of red, blue and yellow) continues to grow with more and more OEM machine introductions, especially in the higher copy or printing speeds where full finishing is needed. We have grown our business color finished product net sales from approximately 10% of our sales in 2004 to 29% for the quarter ended March 31, 2005, and we expect our sales from color finished products to continue to increase. The effect of these sales already reflect in our improving gross and operating profit margins, and we expect these margins for year 2005 to surpass those of 2004.

A large portion of the business color copier market has been captured by Ricoh with their B to C machine placements. B to C means ... black to color enabled. Ricoh is also expanding its color printer only market with many new machine introductions. New introductions will be the Ricoh 3000 and 4000 printers which will be added to their current 5000, 7000 and 7100 printer line. Ricoh's intent, we believe, is to upgrade their entire machine population to these new versions.

We believe cost per color copy is the key to higher volumes of full color copies in the workplace, and now:

- we plan to continue to introduce color toner cartridges for selected, new, high volume business color machines,
- we have a full line of business color toners for the Ricoh family of copy machines, and
- we are prepared to support the entire Ricoh color offering, including their new printers.

In the quarter ended March 31, 2005, we introduced color toners for the Konica/Minolta family of business color copiers. Similar copier engines are used in Konica, Minolta, Kyocera/Mita and Imagistics machines. We have a cartridge that is universal, meaning it fits across this entire product line. Additionally, we introduced separate color cartridges for the new C-350 "bizhub" machine which has been received very well in the marketplace. New products coming for this family are the Konica 8050 engine and the new C-500 "bizhub." Here, again, we intend to provide a complete offering of color cartridges for these product lines.

During the second quarter of 2005, we plan to introduce color toner cartridges for the OKI printer line of 5100/7200/9300 printers. OKI has been successful placing this desktop printer and our new universal cartridges will fit many of these new printers. Also during the second quarter we to plan to introduce color products for the Sharp and Toshiba business color machines.

We next plan to expand our business color toner cartridge product line by offering the Canon line of "Business Color" cartridges with the first products to be introduced planned to be Canon C3100 and C3200 color products.

With the rapid introduction of new color multifunctional printers ("MFP's") by the OEMs and the users' and dealers'concern about cost per copy and keeping it down, we are positioning ourselves to be the leading provider of lower cost aftermarket supplies for these successful business color OEM offerings.

All in one imaging, toner and drum cartridges

We introduced during 2003 the all-in-one imaging, toner and drum cartridges manufactured by our foreign affiliate. Through March 31, 2005, the Company's net sales for 100% new all-in-one products were:

Year	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	TOTAL
2005	$ 621,817	N/A	N/A	N/A	$ 621,817
2004	$ 158,311	$ 657,771	$ 919,197	$ 772,064	$ 2,507,343
2003	$ --	$ --	$ 64,414	$ 64,457	$ 128,871

As of March 31, 3005, the backlog of the Company for these products was $64,367.

Board approved the Company's "going private"

On April 14, 2005, the Company's Board of Directors approved a reverse split of Color Imaging's common stock, with cash payments for fractional shares held by stockholders with less than one whole share, to be followed immediately by a forward split at the same ratio to effect a going private transaction. Color Imaging has had less than 300 stockholders of record since last year, and if the transaction is approved by Color Imaging's stockholders at its next annual meeting and implemented, Color Imaging expects to have fewer than 150 stockholders of record, enabling it to voluntarily terminate the registration of its Common Stock under the Securities Exchange Act of 1934, go private and reasonably assure its remaining private for the foreseeable future. The Company expects to pay the stockholders whose shares will be cancelled a pre-split price per share to be determined by the Board of Directors based upon the recommendation of a special committee appointed to review the transaction and the receipt of a fairness opinion from an investment banker. While the price is subject to receipt of the fairness opinion by the special committee and the Board, and is subject to change, the Company expects that the pre-split price will be $1.10 per share.

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The Company has received a conditional consent from its lender that will allow the Company to complete the reverse stock split without violating its debt covenants. The Company has ceased making purchases under its previously announced stock repurchase plan. The Board has determined to refrain from any purchases under that plan until after the stockholder meeting and the conclusion of the reverse stock split.

The Board intends to submit the matter to the stockholders with the request that the stockholders give the Board the authority to implement the reverse split using one of three potential ratios: 1-for-1500, 1-for-2500 or 1-for-5000. The forward stock split would be adjusted to use a corresponding forward ratio, e.g. 1500-for-1, 2500-for-1 or 5000-for-1. This flexibility would allow the Board to achieve the desired benefits for the Company, in light of any intervening changes in the mix of record holders, without having to incur the expense of calling an additional stockholder meeting, and to not go forward with the reverse stock split should conditions change and the Board then determines it is no longer in the best interest of the Company and its stockholders to do so.

The matters discussed in this Form 10-Q related to the going private transaction will be described more fully in a proxy statement to be distributed to the stockholders. Stockholders should refer to that proxy statement. This discussion does not constitute a solicitation for any stockholder's vote. The reverse stock split is subject to conditions and uncertainties, including stockholder approval, the Boards determination to proceed with the reverse stock split, the conditions of the consent of the Company's lender and the Company's ability to fund the payment for fractional shares. In addition, the proxy statement for the stockholder meeting will be subject to SEC review, and there may be unforeseen delays in implementing the reverse stock split. The Company can give no assurance that it will be able to complete the going private reverse stock split transaction.

MARKET OVERVIEW AND INDUSTRY

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 OEMs, re-manufacturers and a few dealers directly.

We believe the trends in the electronic printing and photocopying industry affecting original equipment manufacturers of these devices, include (1) the introduction of products utilizing digital and color printing technologies as opposed to analog and black text printing, (2) offering business color printing solutions at a cost per page that are increasingly competitive, (3) OEMs reducing the selling price of their devices while increasing their printing speed, functionality and networkability, (4) OEMs increasing the technological barriers through the use of specialized toners (chemical toners incorporating polyesters and proprietary raw materials), patents and microprocessors (machine readable microchips with internet connectivity for supplies management), (5) OEMs endeavoring to control the market for consumable supplies through the use of OEMs' technologies as barriers to market entry for re-manufacturers of these products or manufacturers of like, new, aftermarket products and (6) OEMs utilizing prebate (license arrangements) and recycling programs to reduce the number of OEM cartridges available for remanufacture in the aftermarket. Over time, we believe that digital printers and photocopy machines that print at speeds of up to 100 pages per minute will merge into one device, delivering multifunctional capability and color printing that are net-workable at both lower prices and operating costs to the end user. Consumables for these devices will become increasingly difficult to remanufacture and for full-color machines take longer to bring to market, thereby reducing the market share of re-manufacturers and increasing the opportunity of increased market share for newly manufactured finished product and for color toner aftermarket suppliers, such as Color Imaging. In our experience, new aftermarket consumable products are typically 25% cheaper than OEM's consumables with like functionality - a savings to the consumer. Seeing that the aftermarket has increasingly gained acceptance as product quality has steadily improved, we believe that Color Imaging is positioning itself to take advantage of these trends.

Color Imaging's solution is, through its own technological capability and that of strategic suppliers, to develop and introduce compatible, newly manufactured, aftermarket products, ahead of other aftermarket competitors, at a price significantly below that of the OEM and make these products increasingly available through distribution channels closer to the end-user.

GROWTH STRATEGY

Our strategy for growing revenue and operating profit is to expand, including through strategic acquisition(s), our printer and copier products business. The key elements of our strategy are (1) increasing vertical integration by supplying complete toner and cartridge devices, (2) capitalizing on our research and development expertise of producing specialty, color and digital copier and or multifunctional device toners, (3) exploiting the efficiencies associated with the investment made in our manufacturing facilities, (4) expanding our sources for products from strategic suppliers that we can add value to or resell that complement our product lines, (5) expanding into new geographic markets to customers in the United States and Europe, and (6) 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.

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 toners, while providing lower margin MICR and black text toners in commodity bulk to a few customers. The bulk quantity of MICR black text toners is currently being offered to maximize the efficiencies of Color Imaging's manufacturing plant. The availability of this complete research and development and manufacturing facility allows for the continued expansion of specialty, particularly color, toner products.

During 2005, Color Imaging expects to increase its sales of higher margin digital, color toners for certain popular business color copiers and printers. The introduction of a few color products in 2003 and 2004 to be followed by several during 2005 and the expansion of our sales channels is expected to help Color Imaging increase revenues in 2005, offsetting the further loss of revenues from our two largest customers of the last several years.

GOALS AND FOCUS FOR THE NEXT FIVE YEARS

We are of the belief that to remain a public company and offer our stockholders both attractive value and liquidity we should have sales of at least $100 million to $150 million per year, earnings before interest, income taxes, depreciation and amortization of $10 million to $20 million and move our stock to a major exchange. We are prepared to grow our Company both internally through the introduction of uniquely competitive products as well as through mergers and or acquisitions, even though such an event could mean a change in our management or control. Some time ago members of our management had conversations with a specialist of the American Stock Exchange and explored the possibility of listing with American Stock Exchange when our sales, profitability and outlook are such that we would benefit from a major exchange listing. We also made casual inquiries of other companies regarding the desirability of merging with us. To date, though one such contact led to a number of discussions and explorations, a confidentiality agreement and the exchange of financial and business information, no definitive understanding or agreement was reached. As a

result, we have not been able to grow our business through mergers or acquisitions or significantly from operations, and we have not realized increased value befitting a public company for our stockholders. In January 2005 our board of directors appointed a special committee to consider strategic alternatives. Based on the committee's recommendations, the board of directors of our Company approved a going private transaction on April 14, 2005 (see Recent Developments and our Form 8-K filed with the SEC on April 19, 2005). However, there can be no assurance that the Company can complete the approved going private transaction and achieve the savings or benefits envisioned by management.

LAST FIVE YEARS

The purpose of the Merger in 2000 (see Background) was to combine Color Image's toner and consumable expertise and manufacturing plant with Logical Imaging Solutions' advanced printing system capabilities to offer a wider product range and ensure product supply for Logical Imaging Solutions' print system, thereby becoming an OEM with our own high speed color printer and toner supplies and the expectation of significantly higher sales and profitability in the future. Being a public company, we believed, would afford us the opportunity to raise capital in the equity markets to finance significant planned growth and to use our public stock for acquisitions of others, while increasing stockholder value.

We expanded manufacturing capacity four-fold and improved production efficiency, raised capital in a private placement and pursued a acquisition that was unsuccessful, necessitating the writing off of over $200,000 of deferred expenses. In 2002, upon determining that much of Logical Imaging Solutions' technology was not fully developed, proven in beta-testing or commercialized for sale or accepted in the marketplace and required an undetermined amount of capital to complete its development, while at the same time Logical Imaging Solutions continued to incur operational losses, we divested ourselves of this unprofitable subsidiary in which we had invested $2.3 million without realizing our initial goal and purpose of becoming a public company, namely being a successful OEM and substantially increasing stockholder value.

In addition, we refocused our strategy as a toner manufacturer away from low margin (commodity-like) bulk laser toner and parts products to finished copier and printing products, to increase sales and margins. For the year ended December 31, 2001, our sales reached $30 million, with our three largest customers accounting for 70% (some $21 million) of those sales, and during 2004 these customers account for only about $6.3 million of our net sales, down some $14.7 million or 70% from 2001. The products sold to these customers were primarily analog copier toners and developers, and our sales to these customers of these products have rapidly declined for several reasons, including as the products are discontinued in the market. As a result of the decreasing sales to our largest customers, our total sales have declined. Challenged to replace the sales lost from our largest customers, we introduced new products and expanded our sales channels.

In 2003 we completed a public offering of 4.5 million shares of our common stock, raising over $6 million fro our foreign affiliate and introduced 100% new complicated toner cartridges, generally referred to as all-in-one ("AIO") imaging, toner or drum cartridges with their becoming 11% of sales during 2004. And, also, during 2003 we were also the first to introduce aftermarket, full-color, Segment 3 and 4, networked copier/printer/MFP toner products, continued research and development on other such products in 2004 and plan to introduce several such new products in 2005 (refer to Recent Developments herein).

To our knowledge we are the only source for these full-color toner products worldwide, other than the OEMs. As a result, we stemmed the pattern of declining sales in 2004. During the first quarter ended March 31, 2005 compared to the same period in 2004, sales from our two largest customers declined approximately $800,000, or 41%, while net sales to our other customers increased by approximately $800,000, or 22%.

Over the past five years, we have transformed our business by moving from bulk to finished products and from laser printer to copier products, building a larger and more effective sales and customer support organization, adding copier dealers and distributors to our customer list, expanding our international sales from approximately 10% of sales to now over 50% of our net sales and developing and successfully marketing business color toner products.

PRODUCTS

Our primary product focus is full-color, 100% new, finished toner cartridge products for multifunctional printers/devices ("MFPs"), copiers and printers (see Recent Developments). In particular, we are concentrating on work group/networked solutions segments, complicated all in one cartridges and selected specialty toner products for certain industrial applications and for the printing of magnetic characters on checks and or financial documents. In 1999 approximately 10% of the Company's sales were derived from finished products, while, at this time, some 80% of the Company's sales are derived from finished products.

While 100% new all-in-one ("AIO") products are important for increasing sales, full-color ("business color") finished toner products without competition from others except the OEMs for the "sweet-spot" of digital multi-functional copiers/printers, will make the largest contribution to increasing sales and profitability. During 2004 approximately 10% of our sales were derived from these business color products, and we believe they will be approximately 40% of our total revenues during 2005.

WHY 100% NEW PRODUCTS AND PRODUCT TRENDS

While remanufactured or refurbished ("remanufactured") toner cartridges for use in printers generally have 30% of the market in units and 25% in dollar value and are just now being introduced for use in copiers, remanufactured cartridges have a perception with the users from past experience of being of inferior quality even though they offer a cost savings. The quality of the some 2,500 remanufacturers in the U.S. is, by its nature, inconsistent and certain cartridges cannot be readily remanufactured due to the technology utilized by the OEMs. Contributing to the perception of poorer quality for these products is the fact that remanufacturers will not always replace all of the worn parts in a particular cartridge. The dilemma is that if too few parts are changed the cartridge could fail prematurely or not deliver the required print quality, while changing all of the parts subject to wear not only increases the cost of the product but also can result in more variation in print performance compared to that of the OEM. While users may save 25% or more by using a remanufactured cartridge, as a result of past and existing quality issues remanufactured product have consistently enjoyed only a 30% share of the market, leaving 70% of the users buying 100% new product from the OEM. Other than the OEM's better branding, having substantially greater distribution for their products and recycling programs taking empty cores out of the market, other factors contributing the users opting for the OEM, or new product, over remanufactured includes the inconsistent availability of remanufactured cartridges and market confusion from the marketing of remanufactured cartridges as compatible, remanufactured, refurbished, new drum, 100% new parts, or other descriptions, and a wide range of prices, all of which leave the user wondering what is being purchased.

Increasingly, the OEMs have moved to prevent aftermarket companies from supplying alternatives to their product. The OEMs accomplish this by increasing the technological barriers with patents, chemical toners and computer chips, and a few have used licensing arrangements (prebate programs) for their product (Lexmark and recently Dell Computers) to make the remanufacture of their cartridges illegal. In addition, recycle programs designed to get the OEM's cartridge back from the user, effectively keeping it away from remanufacturers, are growing worldwide. While recycle programs are touted as being protective of the environment, and they are, their effect is to reduce competition from remanufacturers by taking cartridges off the market. On the other hand, a 100% new product priced lower than the OEM and competitively with remanufactured cartridges, redesigned so as not to infringe on the OEM's intellectual property, is not subject to many of the above mentioned problems. Further, with our improved financial strength, significant trade support from our affiliated foreign supplier and expected profitability of our color products, we believe we will not need additional financial resources to realize our goals, excepting, perhaps, the needs that may arise should we be successful in identifying and completing a merger or acquisition.

MARKETING AND SALES

While we have changed our product mix from almost entirely bulk toners and parts to now primarily finished products, we have also expanded our sales channels over the last five years from almost solely unfinished printer products sold to domestic remanufacturers, and a few distributors serving them, to distributors and dealers worldwide of finished copier and printer products, including acquiring large private label arrangements (OEM and distributor). As a result, our international sales have increased from approximately 10% to over 50% of our total sales. We accomplished this by acquiring significant corporate account relationships and implementing a worldwide manufacturer's representative program and recruiting industry experienced and successful technical sales and marketing executives. During 2005 we plan to substantially increase the sales of our color copier products by obtaining additional large dealer customers for these products in the United States and distributors in Europe.

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STOCKHOLDER VALUE, LIQUIDITY AND MERGERS OR ACQUISITIONS

Many of our stockholders invested in our private placement that closed in 2001 at a price per share of $2.00 per share and in 2003 our public offering of 4,500,000 shares of our common stock at $1.35 per share. We believe that these and our other stockholders are expecting a return on their investment and a more liquid market for our stock. In 2002 we divested ourselves of a subsidiary that was losing money and had required investments by us of some $2.35 million. Its new owner acquired several hundred thousand shares of our common stock in an exchange thereafter and it and its management has been selling these shares in the market since 2003, including through the first quarter of 2005, contributing to the decline in our stock price of from over $2.00 per share during 2002 to the low of $0.30 in March 2003. Though the divestiture of the subsidiary, the completion of our public offering and our improved operations significantly improved the financial condition of the Company, our stock price languishes and on April 11, 2005, closed at $0.48. With the belief that our common shares were undervalued and represented a good use of some of the Company's working capital, in 2002 our Board of Directors approved through September 30, 2004, the repurchase of up to the lesser of $1 million or 1 million shares of our common stock. During 2004 our Board of Directors approved the extension of our stock repurchase program to September 30, 2005, and from inception through March 31, 2005, the Company has repurchased 84,700 of the Company's common shares at a

cost of approximately $56,100 and at an average price of $0.66. In December 2004 the Company felt either a merger or going private transaction was becoming more likely, and as a result instructed its broker to halt the purchase of the Company's common shares in the market, and the Company will not purchase any additional shares on the market until the going private transaction approved by the board on April 14, 2005, is concluded or cancelled.

We continue to be interested in making our Company more successful, more quickly, through a successful acquisition or merger. In that regard our criteria for a generally acceptable merger/acquisition candidate include:

- An experienced and capable management team that would remain.
- A sound and improving financial condition with sales of from $25 million to $75 million and earnings before interest, income taxes, depreciation and amortization of from $4 million to $15 million.
- Products that would complement ours and offer unique competitive advantages.
- Sales channels to include office product superstores, contract stationers, corporate accounts, copy product distributors or dealers.
- Distribution not only in the United States but preferably in Europe as well.
- A core value and excellent reputation for high quality.

Our management realizes that an acquisition or merger with a company like that described above could mean changes to both the existing management of our Company, control over the Company's operations and, among other things, whether or not the Company is the surviving entity or remains a public company. With approximately 75% of our common shares controlled by directors, officers, affiliates and other family members, management believes that these stockholders and others could be persuaded to vote for the completion of a merger or acquisition that was expected to increase in the future both stockholder value and liquidity. However, management has had preliminary discussions with a number of potential merger candidates over the last few years without coming to any conclusion on a transaction.

At this time there are no definitive proposals for a merger transaction, though we continue to seek out and engage in discussions with prospective merger or acquisition candidates and previously formed a special committee of the board of directors to investigate strategic alternatives, including going private. We have found that as a result of our being public, it is more difficult for a private company to be merged with us, due to the requirements of Sarbanes-Oxley and other securities laws and regulations. There can be no assurance that any merger or going private transaction will be completed.

OVERVIEW

The following discussion and analysis should be read in conjunction with our financial data and our Financial Statements and notes appearing elsewhere in this report.

Net sales for the three months ended March 31, 2005 increased by approximately $28,000, or less than 1%, to $5.6 million, compared to 2004. Net sales in 2005 increased primarily due to increased sales derived from color and monochrome copier toner product sales to customers other than our historically largest customers whose sales for the first quarter 2005 compared to the same period of 2004 declined approximately $800,000. In the three months ended March 31, 2005 and 2004, our net sales were primarily generated from the sale of finished consumable products for electronic printers and photocopying machines and comprised approximately 83% and 76% of net sales, respectively. For the three months ended March 31, 2005, our historically two largest imaging products customers accounted for 16% and 4% of net sales, respectively, while for the

same period in 2004 they were 30% and 5% of net sales, respectively. Sales to these customers consist primarily of analog copier products, and as a result are expected to be less than 10% of our total sales in 2006.

Net sales made outside of the United States increased to approximately $2.9 million, or 53% of total sales for the three months ended March 31, 2005, compared to $2.4 million, or 43% for the three months ended March 31, 2004. This increase in international sales resulted primarily from the increase in sales of color copier products to customers other than our two, historically, largest customers.

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The following table reflects the consolidated new orders, net of cancellations, revenues and backlog as of the beginning and end of the three months ended March 31, 2005, as well as for Color Imaging's two general product lines.

	Backlog at start of Year	New Orders	Net Revenue	Backlog at end of Quarter
	(IN THOUSANDS OF DOLLARS)			
2005:				
Copier/AIO Products	$ 1,404	$ 4,437	$ 4,667	$ 1,173
Printer Products	547	799	962	385
Total	1,951	5,236	5,629	1,558

CRITICAL ACCOUNTING ESTIMATES

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

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

A critical accounting policy is one that is both important to the portrayal of Color Imaging's financial condition and results and requires management's most

difficult, subjective or complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain. Management believes the following critical accounting policies affect its more significant judgments and estimates in the preparation of its consolidated financial statements.

VALUATION ALLOWANCE FOR ACCOUNTS RECEIVABLE. We maintain allowances for doubtful accounts for estimated losses resulting from the inability of our customers to make required payments. These allowances are based on historical experience, credit evaluations and specific customer collection issues we have identified. Since our accounts receivable are often concentrated in a relatively few number of customers, a significant change in the liquidity or financial position of any one of these customers could have a material adverse impact on the collectibility of our accounts receivable and our future operating results. For the years ended December 31, 2004, 2003 and 2002 our write-offs were approximately $19,638, $41,339 and $8,733, or averaged less than $20,000 per year. As of March 31, 2005, we had $2,780,078 of accounts receivable net of a $93,965 valuation allowance.

INVENTORY VALUATION. Our inventories are recorded at the lower of standard cost or the current estimated market value. 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. Demand for our products has fluctuated significantly and may do so in the future, which could result in an increase in the cost of inventory or an increase in excess inventory quantities on hand. As circumstances warrant, we record lower of cost or market inventory adjustments. In some instances these adjustments can have a material effect on the financial results of an annual or interim period. In order to determine such adjustments, we evaluate the age, inventory turns, estimated fair value and, in the case of toner products, whether or not they can be reformulated and manufactured into other products, and record any adjustment if estimated fair value is below cost. Through periodic review of each of our inventory categories and by offering markdown or closeout pricing, we regularly take steps to sell off slower moving inventory to eliminate or lessen the effect of any lower of cost or market adjustment. If assumptions about future demand or actual market conditions are less favorable than those projected by management, write-downs of inventory could be required, and there can be no assurance that future developments will not necessitate further write-downs. For the years ended December 31, 2004, 2003 and 2002 we made inventory obsolescence reserves of $280,000, $275,000 and $240,000, totaling $795,000, or an average of $265,000 per year, and we have written-down or disposed of approximately $296,000, $212,000 and $279,000 for the same period for a total of $787,000 of inventory, or an average of $262,000 per year. Our experience over the last few years has indicated an obsolescence rate of approximately $20,000 per month. As of March 31, 2005, we had approximately $5,331,000 of inventory net of approximately a $128,700 valuation provision.

VALUATION OF LONG-LIVED ASSETS. We periodically evaluate whether events and circumstances have occurred which may affect the estimated useful life or the recoverability of the remaining balance of our long-lived assets, such as our investment in our toner manufacturing equipment. Our manufacturing equipment is suitable for, and is used to make, a large number of products, and as such we have not experienced any impairment due to the discontinuation of any product(s). During the years 2000 through 2002 we moved and expanded our manufacturing facilities, upgrading the technologies we employ, and during 2003 we continued to upgrade and take out of service equipment that has reached its useful life or was no longer competitive, much of all of which was fully

depreciated. We have approximately $8.2 million invested in such equipment and plant improvements, with a carrying value of $6.1 million, that have estimated lives of up to twenty years. Should competing technologies or offshore competitors cause our manufacturing technology to be non-competitive, or should other events or circumstances indicate that the carrying amount of these assets would not be recoverable, the estimated life of these assets may need to be shortened and their carrying value could be materially affected. If the sum of the undiscounted expected cash flows from an asset to be held and used in operations is less than the carrying value of the asset, an impairment loss is recognized.

WARRANTY. We provide a limited warranty, generally ninety (90) days, to all purchasers of our products. Accordingly, we do not make a provision for the estimated cost of providing warranty coverage, and instead we expense these costs as they are incurred. On occasion, we have been required and may be required in the future to provide additional warranty coverage to ensure that our products are ultimately accepted or to maintain customer goodwill. We incurred no material warranty expenses for 2004, 2003 and 2002. While our warranty costs have historically not been significant we cannot guarantee that we will continue to experience a similar level of predictability with regard to warranty costs as we have in the past. In addition, the introduction of more expensive finished products, manufactured by us and by others and distributed by us through more sales channels, technological changes or previously unknown defects in raw materials or components may result in more extensive and frequent warranty claims than anticipated, which could have a material adverse impact on our operating results for the periods in which such additional costs materialize.

RESULTS OF OPERATIONS

Color Imaging's net sales were $5.6 million for the three months ended March 31, 2005, a increase of approximately 0.5% from March 31, 2004. The net sales by product category were as follows:

(Dollars in thousands)	2005	%	% Increase (Decrease)	2004	%
Product Category:					
Cartridges and bottles					
Copier/AIO finished products	$ 4,290	76%	19%	$ 3,600	64%
Printer finished products	367	7%	(44%)	660	12%
	4,657	83%	9%	4,260	76%
Bulk toner and parts	972	17%	(28%)	1,341	24%
Total net revenue	$ 5,629	100%	0%	$ 5,601	100%

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

	THREE MONTHS ENDED MARCH 31,	
	2005	2004

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	(PERCENTAGE OF NET SALES)	
Net sales	100	100
Cost of sales	68	75
Gross profit	32	25
Administrative expenses	8	7
Research and development	5	5
Sales and marketing	14	11
Operating income	5	2
Interest expense	-	1
Depreciation and amortization	3	2
Income before taxes	6	3
Provision for income taxes	2	1
Net income	4	2

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THREE MONTHS ENDED MARCH 31, 2005 COMPARED TO THREE MONTHS ENDED MARCH 31, 2004

NET SALES. Our net sales increased by $28,000, or 0.5%, to $5.629 million for the three months ended March 31, 2004, from $5.601 million for the three months ended March 31, 2004. Net sales made in the United States were $2.6 million, a decrease of $0.6 million, or 17%, from $3.2 million made in the comparable period in 2004. Net sales made outside of the United States increased by approximately $0.6 million, or 24%, for the current quarter compared to the same quarter of 2004. The decrease in net sales for the current quarter compared to that of a year ago of approximately $800,000 from our two, historically, largest customers was offset by the increase in our color and monochrome toner product sales to other customers. Of the $5.6 million in net sales, $4.7 million, or 83%, were attributable to our copier and printer finished products, while net sales of these same products were $4.3 million, or 76%, for the comparable period in 2004. The revenue increase from copier finished products from 2004 to 2005 was 19%, reflecting primarily increased sales of our color and monochrome copier products to customers other than our two, historically, largest customers. Sales of our bulk toner and parts products for the three months ended March 31, 2005 were $1.0 million compared to $1.3 million for the same period of 2004. We believe that sales of our finished copier and printer products will continue to increase while sales of our bulk toner and parts products will continue to decrease during 2004, as the result of our not introducing fewer monochrome and color, commodity, bulk laser toner products and increased competition.

COST OF GOODS SOLD. Cost of goods sold decreased by approximately $363,000, or 9%, to $3.8 million from $4.2 million for the three months ended March 31, 2005 and for the comparable period in 2004, primarily as the result of the decrease in lower margin net sales to our two largest customers and the increase in higher, color, finished product sales. Cost of goods sold as a percentage of net sales decreased by 7 percentage points from 75% for the three months ended March 31, 2005 to 68% for the three months ended March 31, 2005, primarily as the result of reduced sales derived from certain very low margin products previously sold to our largest customers and a larger percentage of sales being derived from sales of color products with higher gross margins. With the expected increase in sales derived from our color copier toner products, we expect our cost of goods sold to further decrease as a percentage of net sales.

GROSS PROFIT. As a result of the above factors, gross profit increased to $1.8 million in the three months ended March 31, 2005 from $1.4 million in the three months ended March 31, 2005, or approximately $.4 million, while net sales for the same period increased by $28,000. Gross profit as a percentage of net sales

increased by 7 percentage points from 25% to 32% for the three months ended March 31, 2005, as compared to the corresponding period of the prior year.

OPERATING EXPENSES. Operating expenses increased $187,000 million, or 14%, to $1.49 million in the three months ended March 31, 2005 from $1.30 million in the three months ended March 31, 2004. General and administrative, selling and R&D expenses increased, as a percentage of net sales, to 27% in the three months ended March 31, 2005 from 23% in the three months ended March 31, 2004. General and administrative expenses increased approximately 10%, or $40,000 to $437,000 for the three months ended March 31, 2005 from the comparable period in 2004, largely resulting from $50,000 paid for strategic advisory services. Selling expenses increased by $163,000, or 27%, in the three months ended March 31, 2005 compared to the three months ended March 31, 2004. Selling expenses increased primarily as a result of increased payroll expenses and recruiting fees paid in connection with the hiring of five regional sales vices presidents in the United States and increased travel related expenses. Research and development expenses decreased by $16,000, or 5%, to $294,000 in the three months ended March 31, 2005, primarily as the result of decreased payroll expenses which were partially offset by higher product testing expenses.

OPERATING INCOME. As a result of the above factors, operating income increased by $204,000, or 202%, net of the $50,000 paid for strategic advisory services, to a profit of $305,000 in the three months ended March 31, 2005 from $101,000 in the three months ended March 31, 2004.

INTEREST AND FINANCE EXPENSE. Interest expense was $24,000 in the three months ended March 31, 2005 and for the three months ended March 31, 2004. The decrease in the level of interest bearing debt was offset by the increase in interest expenses resulting from the increase to interest rates. We expect that our debt levels will continue to decline in 2005, while the average rate we are paying on our debt facilities will increase.

OTHER INCOME. Other income decreased by $52,000, or 74%, from income of $94,000 to income of $42,000 in the three months ended March 31, 2005 from the three months ended March 31, 2004, primarily as the result of lower income derived from the exchange of Euros with the resetting of the Euro exchange rate to 1.25.

INCOME TAXES. As the result of our profit in the three months ended March 31, 2005, we recorded an income tax provision of $101,800, after reducing the valuation allowance for deferred tax assets $28,000 for the period, while the income tax provisions were $68,000 for the three months ended March 31, 2004. Based upon our current profitability, during 2005 we expect to reverse all of the deferred tax asset valuation allowance of $112,500 that we had as of the year ended December 31, 2004 in connection with our net operating loss carry forward.

LIQUIDITY AND CAPITAL RESOURCES

At March 31, 2005, and December 31, 2004, our working capital and current ratio was approximately $8.0 million and $7.4 million and 4.65 to 1 and 4.54 to 1, respectively. Our working capital and current ratio have benefited primarily from the net proceeds we received from the public sale of our common stock during March 2003 and our improved profitability.

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Cash flows provided by operating activities were $823,000 in the three months ended March 31, 2005 compared to $406,000 used in operations in the three months ended March 31, 2004. The cash flows provided by continuing operating activities in the three months ended March 31, 2005 increased primarily due to the decrease

in other assets, a prepayment of some $650,000 was made on the IDR bond by our affiliate, and an increase in accounts payable and other liabilities. Overall, with our sales internationally increasing as a percentage of our total net sales, our collections of accounts receivable are expected to continue to slow, since we sell internationally typically on longer terms and payment by these customers is often beyond terms. As a result, the carrying of higher levels of accounts receivable will likely be an increasing use of our cash, together with higher levels of inventory to support our new color product introductions and customers in Europe.

Cash flows used in investing activities were $207,000 in the three months ended March 31, 2005, compared to $125,000 in the three months ended March 31, 2004. The increase in cash used in investing activities in the three months ended March 31, 2005, was primarily attributable to the acquisition of factory equipment.

The Company has a $1.5 million revolving line of credit, as amended, with an outstanding balance as of March 31, 2005 of $0, bearing interest at the one-month Libor interest rate in effect two business days before the first day of the month plus 2.50%. As of March 31, 2005, the interest rate was the one-month Libor rate of 2.86% plus 2.50% (5.36%). This revolving line of credit has a June 30, 2005 expiration date, and we plan to renew it for up to one year to expire June 30, 2006. Under the line of credit, the Company is permitted to borrow up to 75% of eligible accounts receivable and 50% of eligible inventories (up to a maximum of $750,000 and not to exceed 50% of the total outstanding). On February 6, 2004, the Bank issued an irrevocable standby letter of credit in the amount of $1.5 million for the benefit of a non-affiliated foreign supplier. The letter of credit has an expiration date of June 30, 2005, and guarantees the payment of moneys owed the supplier for materials purchased from them by the Company. On January 5, 2005, the irrevocable standby letter of credit was amended and reduced by $500,000 to $1 million. At March 31, 2005 the Company's accounts payable and purchase commitments to this supplier were approximately $654,800. The Company has granted the Bank a security interest in all of the Company's assets as security for the repayment of the line of credit and the obligations under the letter of credit.

The Bank agreement also contains various covenants that the Company is required to maintain, and as of March 31, 2005, the Company was in compliance with these covenants.

Cash flows used by financing activities were $743,000, primarily for the repayment of $650,000 of IDR bond and $67,000 of affiliate debt, for the three months ended March 31, 2005 compared to cash flows used by financing activities of $112,000 for the same period in 2004.

On April 18, 2003, Color Imaging established a stock repurchase program under which Color Imaging's common stock, with an aggregate market value up to the lesser of $1 million or 1 million shares, may be acquired in the open market or through private or other transactions. Through March 31, 2005, Color Imaging has repurchased 84,700 shares of our common stock for approximately $56,100, or for an average price of $0.663 per share. During December 2004, the Company halted the repurchase of its common shares in the market and does not intend to purchase additional shares in the market until such time as the Company's going private transaction is completed or cancelled. In connection with the going private transaction, we expect to incur a total of approximately $250,000 for transaction expenses, including legal, accounting and investment banking fees, and we expect to expend approximately $250,000 to cash out the fractional share holdings. The Company believes it has sufficient working capital to fund these expenditures without incurring any additional debt.

Our liquidity is affected by many factors, some based on the normal operations of our business and others related to the uncertainties of the industry and

global economies. Although our cash requirements will fluctuate based on the timing of these factors, we believe that current cash and cash equivalents, cash flows from operations and amounts available under our credit agreement will be, in the aggregate, sufficient to finance our operating and investing activities for at least the next 12 months, which will include expenditures not to exceed approximately $675,000 for manufacturing equipment, $150,000 for research and development equipment, $175,000 potentially for computer and software upgrades, the estimated $500,000 to complete our going private transaction and the staging of some $250,000 of inventory in Europe to support the growing sales of our color copier products in that market and any advances made by our bank on our behalf under our off-balance sheet arrangement of $1 million for a standby letter of credit issued to a non-affiliated foreign supplier.

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

RISK FACTORS

RISKS RELATED TO OUR BUSINESS:

OUR BUSINESS DEPENDS ON A LIMITED NUMBER OF CUSTOMERS.

For the three months ended March 31, 2005, one customer accounted for approximately 16% of our net sales, down from 24% for the twelve months ended December 31, 2004. We do not have a contract with this customer 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 this customer, including through an acquisition, other business combination or the loss by them of business from their customers could have a substantial and adverse effect on our business. We have in the past, and may in the future, lose one or more major customers or substantial portions of our business with one or more of our major customers. If we do not sell products or services to customers in the quantities anticipated, or if a major customer reduces or terminates its relationship with us, market perception of our products and technology, growth prospects, and financial condition and results of operation could be harmed.

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

As of March 31, 2005, receivables from one customer comprised 10% of accounts receivable. A concentration of our receivables from a small number of customers places us at risk should these receivables become uncollectible. If any one or more of our major customers is unable to pay us it could adversely affect our results of operations and financial condition. Color Imaging attempts to manage this credit risk by performing credit checks, requiring significant partial payments prior to shipment where appropriate, and actively monitoring collections.

APPROXIMATELY 20% OF OUR BUSINESS DEPENDS ON A FOREIGN SUPPLIER APPROVED BY TWO OF OUR CUSTOMERS TO WHOM WE HAVE ISSUED A LETTER OF CREDIT.

Some of our products incorporate technologies that are available from a particular foreign supplier that has been approved by two of our customers. Approximately 20% of our sales for the three months ended March 31, 2005 were derived from products limited to a specific foreign supplier. For the three months ended March 31, 2005, we purchased 23% of our supplies from that same

foreign supplier. We do not have a written agreement with this or any other supplier. We rely on purchase orders. To secure the payment of moneys due this same foreign supplier we have caused our bank to issue a standby letter of credit in the amount of $1.5 million, amended and reduced to $1 million on January 5, 2005, that expires June 30, 2005. We expect to renew the letter of credit prior to its expiration. Should we be unable to obtain the necessary materials from this foreign supplier, including as a result of our not being able to modify, extend or renew the letter of credit upon expiry, product shipments could be prevented or delayed, which could result in a loss of sales. If we are unable to fulfill existing orders or accept new orders because of a shortage of materials, we may lose revenues and risk losing customers.

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

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

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

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

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

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

From 1999 through 2000, we expanded our manufacturing capacity by acquiring new manufacturing equipment and moving to a larger location. Thereafter we further expanded our capacity by placing in service additional manufacturing equipment during 2002 and 2003, and we continue to make investments in and acquire and install new factory equipment. 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 SUCCESS IS DEPENDENT ON OUR ABILITY TO SUCCESSFULLY DEVELOP, OR USE OR HAVE ACCESS TO THIRD PARTIES', INTELLECTUAL PROPERTY OR PRODUCTS THAT WE CAN COMMERCIALIZE AND THAT ACHIEVE MARKET ACCEPTANCE.

Our success depends in part on our ability to develop proprietary toner formulas and manufacturing processes, maintain trade secret protection and operate without infringing the proprietary rights of others. Future claims of intellectual property infringement could prevent us from obtaining products incorporating the 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 or those acquired from others infringe the intellectual property rights of another.

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

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

The challenges we face in implementing our business model include establishing market acceptance of existing products and successfully developing or acquiring new products for resale that achieve market acceptance, as well as obtaining additional channels through which to sell various products. We must successfully commercialize the products that are currently being developed, such as our color and magnetic character recognition toner for printers and black text and color toners for new digital copiers and continue to acquire from third parties all-in-one cartridges, 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, we have not commercialized many of the toners that are under development. While we have in the past acquired from third parties materials and products that we have been successful in selling, there can be no assurance that parts, materials or products for new products will be available or will achieve market acceptance, or that we will be successful in increasing our sales to large regional, national or international retailers. If we fail to successfully commercialize products we develop or

acquire for resale from third parties, or if these products fail to achieve market acceptance, our financial condition and results of operation would be seriously harmed.

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

We sell a significant amount of product to customers outside of the United States. International sales accounted for 53% of net sales in the three months ended March 31, 2005. We expect that shipments to international customers will continue to account for a material portion of net sales. During the three month period ended March 31, 2005, our sales were made to customers outside the United States as follows:

- Europe (including Eastern Europe) - 34%
- Mexico - 10%
- Asia/Southeast Asia - 5%
- Other - 4%

Most of our products sold internationally, including those sold to our larger international customers, are on open account, giving rise to the added costs of collection in the event of non-payment. On foreign customer accounts other than those we feel are credit worthy and justify open credit terms with us, we mitigate the risk of non-payment and collection of foreign accounts receivable by obtaining foreign credit insurance on those customers who qualify. Further, should a product shipped overseas be defective, the Company would experience higher costs in connection with a product recall or return and replacement.

Most of our sales are priced in U.S. dollars, but because we began selling products in Europe denominated in Euros during 2001, fluctuations in the Euro could also cause our products there to become less affordable or less competitive or we may sell some products at a loss to otherwise maintain profitable business from a customer. We recorded gains of $154,583, $149,110 and $2,858 during the twelve month periods ended December 31, 2004, 2003 and 2002, respectively, as a result of foreign currency transactions, and for the three months ended March 31, 2005, we reported a gain of $3,523.

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

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

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

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

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

OUR INTELLECTUAL PROPERTY PROTECTION IS LIMITED.

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

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

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

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

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

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

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

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

OUR ACQUISITION STRATEGY MAY PROVE UNSUCCESSFUL.

We intend to pursue acquisitions of businesses or technologies that management believes complement or expand the existing business. Acquisitions of this type involve a number of risks, including the possibility that the operations of any businesses that are acquired will be unprofitable or that management attention will be diverted from the day-to-day operation of the existing business. An unsuccessful acquisition could reduce profit margins or otherwise harm our financial condition, by, for example, impairing liquidity and causing non-compliance with lending institution's financial covenants. In addition, any acquisition could result in a dilutive issuance of equity securities, our going private, 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. We are exploring the possibility of a strategic merger. Any such merger could result in a change in control of the Company. There can be no assurance that any merger or acquisition could be successfully completed. In addition, the Company could incur expenses in exploring a merger or acquisition transactions that are not completed.

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.

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.

DUE TO INHERENT LIMITATIONS, OUR SYSTEM OF DISCLOSURE AND INTERNAL CONTROLS AND PROCEDURES MAY NOT BE SUCCESSFUL IN PREVENTING ALL ERRORS OR FRAUD, OR IN MAKING ALL MATERIAL INFORMATION KNOWN IN A TIMELY MANNER TO THE APPROPRIATE MANAGEMENT.

Though we have concluded with reasonable assurance that our books, records and accounts are kept in reasonable detail, accurately and fairly reflect the

transactions and dispositions of assets, transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, receipts and expenditures and access to assets is permitted in accordance with authorizations of management and directors of the Company, we do not have internal auditors and we depend on a small staff with which it is sometimes difficult to segregate certain duties or to document our practices in policies and procedures. Further, notwithstanding management's conclusions, the effectiveness of a system of disclosure and internal controls and procedures is subject to certain inherent limitations, including cost and staffing limitations, judgments used in decision making, assumptions regarding the likelihood of future events, soundness of internal controls and fraud. Due to such inherent limitations, the Company's system of disclosure or internal controls and procedures may not be successful in preventing all errors or fraud, or in making all material information known in a timely manner to the appropriate management. In addition, we have not completed our policy and procedure documentation and testing of internal control over financial reporting as required under Section 404 of the Sarbanes-Oxley Act. If we fail to achieve and maintain the adequacy of our internal controls, as such standards are modified, supplemented or amended from time to time, we may not be able to ensure that we can conclude on an ongoing basis that we have effective internal controls over financial reporting in accordance with Section 404. Moreover, effective internal controls are necessary for us to produce reliable financial reports and are important to helping prevent financial fraud. If we cannot provide reliable financial reports or prevent fraud, our business and operating results could be harmed, investors could lose confidence in our reported financial information, and the trading price of our stock could drop significantly.

RISKS RELATING TO OUR INDUSTRY:

WE OPERATE IN A COMPETITIVE AND RAPIDLY CHANGING MARKETPLACE.

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

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

Our industry includes large original equipment manufacturers of printing and photocopying equipment and the related imaging supplies, as well as other manufacturers and resellers of aftermarket imaging supplies, with substantial resources to support customers worldwide. Our future performance depends, in part, upon our ability to continue to compete successfully worldwide. All of the original equipment manufacturers and many of our other competitors are diversified companies with greater financial resources and more extensive research, engineering, manufacturing, marketing and customer service and support capabilities than we can provide. We face competition from companies whose

strategy is to provide a broad array of products, some of which compete with the products that we offer. These competitors may bundle their products in a manner that may discourage customers from purchasing our products. In addition, we face competition from smaller emerging imaging supply companies whose strategy is to provide a portion of the products and services that we offer. Loss of competitive position could impair our prices, customer orders, revenues, gross margins, and market share, any of which would negatively affect our operating results and financial condition. Our failure to compete successfully with these other companies would seriously harm our business. There is risk that larger, better-financed competitors will develop and market more advanced products than those that we currently offer or may be able to offer, or that competitors with greater financial resources may decrease prices thereby putting us under financial pressure. The occurrence of any of these events could have a negative impact on our revenues.

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

Rapidly evolving and increasingly difficult technologies, frequent new product introductions and significant price competition characterize the markets in which we operate. 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 often depends on factors beyond our control, including unforeseen increases or decreases in demand for our products and production and supply difficulties. Demand for our products can be affected by product introductions or price changes by competitors or by us, the life cycle of our products, or delays in the development or manufacturing of our products. Our operating results and ability to increase the market share of our products may be adversely affected if we are unable to address inventory issues on a timely basis.

RISKS RELATING TO OWNING OUR COMMON STOCK:

OUR OFFICERS AND DIRECTORS BENEFICIALLY OWN APPROXIMATELY 28% OF THE OUTSTANDING SHARES OF COMMON STOCK, AND AN AFFILIATE OWNS 35% OF OUR COMMON STOCK, ALLOWING THESE STOCKHOLDERS TO CONTROL MATTERS REQUIRING APPROVAL OF THE STOCKHOLDERS.

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

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

As of April 20, 2005, we had issued and outstanding 12,690,305 shares of common stock, options and warrants to purchase an additional 1,410,000 and 100,000 shares of common stock, respectively. The existence of the remaining options and warrants may adversely affect the market price of our common stock and the terms under which we obtain additional equity capital.

THE COMPANY MAY GO PRIVATE, WHICH MAY RESULT IN STOCKHOLDERS OWNING SHARES IN A PRIVATE COMPANY WITHOUT THE ABILITY TO SELL THEIR SHARES IN THE PUBLIC MARKET.

The Board on April 14, 2005, approved a "going private" transaction for the Company. One result of such a transaction would be to remove the Company's stock from trading on the OTC Bulletin Board, and the stock would not be eligible for trading on any stock exchange. The Company has less than 300 holders of record of its common stock, and is eligible to terminate its SEC reporting requirements without stockholder approval or additional financing. Should the Company go private, some stockholders may have shares in the Company for which there would be no public market and their ability to sell the shares would be impeded. Furthermore, the Company would not file current, quarterly or annual reports or be subject to the proxy requirements of the federal securities laws. Stockholders may therefore find it more difficult to obtain information about the Company and its financial performance. The Company expects to incur substantial expenses in connection with the going private transaction and may not be able to realize sufficient cost savings to recover those expenses. In addition, should the Company go private, this may adversely affect the Company's access to capital and its ability to complete any proposed merger transaction.

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

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

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

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

OUR COMMON STOCK IS LISTED ON THE OVER-THE-COUNTER (OTC) BULLETIN BOARD, AND IF WE GO PRIVATE MAY ONLY BE TRADEABLE IN THE PINK SHEETS, WHICH MAY MAKE IT MORE

DIFFICULT FOR STOCKHOLDERS TO SELL THEIR SHARES AND MAY CAUSE THE MARKET PRICE OF OUR COMMON STOCK TO DECREASE.

Because our common stock is listed on the OTC Bulletin Board, and may, if we go private, be traded only in the pink sheets, the liquidity of our common stock is impaired, not only in the number of shares in float and 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:

- progress of our products through development and marketing;
- announcements of technological innovations or new products by us or our competitors;
- government regulatory action affecting our products or competitors' products in both the United States and foreign countries;

- developments or disputes concerning patent or proprietary rights;
- actual or anticipated fluctuations in our operating results;
- the loss of key management or technical personnel;
- the loss of major customers or suppliers;
- the outcome of any future litigation;
- changes in our financial estimates by securities analysts;
- fluctuations in currency exchange rates;
- general market conditions for emerging growth and technology companies;
- broad market fluctuations;
- recovery from natural disasters; and
- economic conditions in the United States or abroad.

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

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

The information referred to above should be considered by investors when reviewing any forward-looking statements contained in this report, in any of our

public filings or press releases or in any oral statements made by us or any of our officers or other persons acting on our behalf. The important factors that could affect forward-looking statements are subject to change, and we disclaim any obligation or duty to update or modify these forward-looking statements.

FORWARD-LOOKING STATEMENTS

Statements contained in this report which are not statements of historical fact are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. These forward-looking statements may be identified by the use of forward-looking terms such as "believes," "expects," "may", "will," "should" or "anticipates" or by discussions of strategy that involve risks and uncertainties. From time to time, we have made or may make forward-looking statements, orally or in writing. These forward-looking statements include statements regarding our ability to borrow funds from financial institutions or affiliates, to engage in sales of our securities, our effecting a going private transaction and realizing any savings and improved profitability as a result, our intention to repay certain borrowings from future sales of our securities or cash flow, the ability to expand capacity by placing in service additional manufacturing equipment and making use of that capacity, our expected acquisition of business or technologies, whether or not we will remain public or go private, our plans for broadening our sales channels and the outlets for our products, our expectation that shipments to international customers will continue to account for a material portion of net sales, anticipated future revenues, our introduction of new products, particularly business color and all in one products, and our increasing our sales from business color and all in one cartridges, digital copier, color and magnetic character recognition toner products, sales, our expectations for operations, demand, technology, products, business ventures, major customers, major suppliers, retention of key officers, management or employees, competition, capital expenditures, credit arrangements and other statements regarding matters that are not historical facts, involve predictions which are based upon a number of future conditions that ultimately may prove to be inaccurate. Our actual results, performance or achievements could differ materially from the results expressed in, or implied by, these forward-looking statements. Forward-looking statements are made based upon management's current expectations and beliefs concerning future developments and their potential effects upon our business. We cannot predict whether future developments affecting us will be those anticipated by management, and there are a number of factors that could adversely affect our future operating results or cause our actual results to differ materially from the estimates or expectations reflected in such forward-looking statements. These factors include the "Risk Factors" discussed above.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISKS

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

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

Beginning in 2001, we became subject to foreign currency risk with respect to

future costs or cash flows from our sales in Euros. We estimate that about 96% of our transactions are denominated in U.S. dollars, excepting those sales in Euros. We have adjusted our prices annually with our customer to reflect the change in the exchange rate and do not expect to be subject to material foreign currency risk, accordingly, with respect to those sales. As a result, to date, we have not entered into any foreign currency forward exchange contracts or other derivative financial instruments to hedge the effects of adverse fluctuations in foreign currency exchange. We incurred a net foreign currency transaction gain of approximately $3,500 in the quarter ended March 31, 2005, and we incurred a net foreign currency transaction gain of $154,583, $149,110 and $2,858 in the years ended December 31, 2004, 2003 and 2002, respectively. Our pricing for our products sold in Euros is currently at the rate of 1.25 Euros relative to the U.S. dollar. A 10% change in the value of the Euro from 1.25 Euros relative to the United States dollar, based upon the sales in Euros for the first quarter of 2005, would cause approximately a $6,700 foreign currency translation adjustment in an average month, a type of other comprehensive income (loss), which would be a direct adjustment to stockholders' equity.

Our revolving line of credit bears interest based on interest rates tied to the prime rate or LIBOR rate, either of which may fluctuate over time based on economic conditions. As a result, we are subject to market risk for changes in interest rates and could be subjected to increased or decreased interest payments if market rates fluctuate and we are in a borrowing mode. At March 31, 2005, there were no amounts outstanding under the line of credit agreement and, accordingly, a sustained increase in the reference rate of 1% would not cause our annual interest expense to change.

Color Imaging's investment policy requires investments with high credit quality issuers and or over night repurchase agreements with our bank. Investments made by Color Imaging will principally consist of U.S. government and government agency obligations and investment-grade, interest-bearing corporate debt securities with varying maturity dates of five years or less, or the overnight purchase of securities held in our bank's investment portfolio. Because of the credit criteria of Color Imaging's investment policies, the primary market risk associated with these investments is interest rate risk. Color Imaging does not use derivative financial instruments to manage interest rate risk or to speculate on future changes in interest rates. Color Imaging had approximately $1 million invested in short-term securities available-for-sale through a fund at March 31, 2005, and we received dividends of approximately $3,800 while recording a net asset value decrease of approximately $2,900 for the quarter ended March 31, 2005. During March 2005 Color Imaging moved all of its investments into short term agency securities.

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

ITEM 4. CONTROLS AND PROCEDURES

a) We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed on our Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in the Commission's rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

The Company's management, including the Chief Executive Officer and Chief Financial Officer, does not expect that its disclosure controls will prevent all error and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the

objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control system, evaluation of controls may not detect all control issues and instances of fraud, if any, within the Company. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdown can occur because of simple error or mistake. The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events. The design may not succeed in achieving its stated goals under all potential future conditions. The Company has, however, designed its disclosure controls and procedures to provide, and believes that such controls and procedures do provide, reasonable assurance that information required to be disclosed by the Company in reports that it files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. The disclosure in this paragraph about inherent limitations of control systems does not modify the conclusions set forth in the next paragraph of the Company's Chief Executive Officer and its Chief Financial Officer concerning the effectiveness of the Company's disclosure controls and procedures.

As of the end of the period covered by this report, March 31, 2005, we carried out an evaluation, under the supervision and with the participation of Color Imaging's management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of Color Imaging's disclosure controls and procedures. Based upon this evaluation, the Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective at the reasonable assurance level to ensure that information required to be disclosed on our Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in the Commission's rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

b) Our Chief Executive Officer and Chief Financial Officer are involved in ongoing evaluations of internal controls. On April 19, 2005, in anticipation of the filing of this Form 10-Q, they reviewed our internal controls and have determined, based on such review, that, there have been no significant changes in our internal controls or in other factors that would significantly affect our internal controls during the quarter ended March 31, 2005.

PART II

ITEM 1. LEGAL PROCEEDINGS

None.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

On January 23, 2003, the Company's registration statement on Form SB-2, registering up to 7 million shares of the Company's common stock, was declared effective (Registration Statement No. 333-76090), and the Company's officers and directors commenced the offering. On March 13, 2003, the Company completed the public sale of 4,500,000 shares of the Company's common stock at a price of $1.35 per share, whereby the Company received $6,075,000 in gross proceeds from an affiliate, and the Company terminated the offering before the sale of all 7 million of registered shares. The net proceeds received by the Company, after

expenses of $174,416, was $5,900,584. None of the aforementioned expenses were direct or indirect payments to directors, officers, their associates or persons owning ten (10) percent or more of the common stock of the Company.

On April 18, 2003, the Company established a stock repurchase program under which the Company may purchase on the open market the lesser of the aggregate value of $1,000,000 or 1,000,000 shares in compliance with Rule 10b-18, and we have reallocated proceeds for this program. Though management is authorized to repurchase the Company's common stock in the aggregate amount of $1,000,000, due to the limitations imposed by Rule 10b-18 and the limited number of shares repurchased to date in accordance therewith and considering the repurchase program, as approved by the board, expires September 30, 2005, the use of proceeds per Form SB-2 as reflected herein is based upon no more than $500,000 being expended for this purpose and very likely much less. And, given that management does not intend to repurchase any additional shares of the Company's common stock in the market until the Company's going private transaction is either completed or cancelled, it is likely that no additional funds will be expended to repurchase the Company's common stock in the market. Management will evaluate, later this year, the reallocation of these funds, as well as the potential extension of the repurchase program beyond September 30, 2005, as the status of the Company's going private transaction becomes more clear.

Our intended uses, as reallocated, of the $6,075,000 of proceeds received from the public sale of our common stock, and our uses through March 31, 2005, are listed below in descending order of priority:

Purpose:	Amount	Used	Reallocated	-
Accounts payable and other corporate and offering expenses	$ 1,000,000	$ (115,042)	$ (884,958)	$
To retire debt (1)	$ 350,000	$ (324,301)	$ (25,699)	$
To retire debt (2)	$ 1,050,000	$ (956,883)	$ (93,117)	$
To retire debt (3)	$ 0	$ (235,000)	$ 235,000	$
To reduce IDR Bond debt (4).	$ 0	$ (548,928)	$ 846,264	$
To acquire capital assets.	$ 1,500,000	$ (318,774)	$ 0	$
To repurchase our stock (5).	$ 0	$ (56,133)	$ 500,000	$
For other general corporate purposes including working capital	$ 2,175,000	$(736,072)	$ (577,490)	$
Total:	$ 6,075,000	$(3,291,133)		$

Pending application:

Short-term investments	$
Pay down of revolving line of credit	$

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(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 was 10.214% and the monthly principal and interest payments were $10,676.39.
(2) On June 24, 1999, we entered into a loan for $1,752,000 with a 7-year term, secured by our business assets, maturing June 24, 2006, with SouthTrust Bank for the refinancing of obligations owing the bank for the acquisition of equipment and that due under a previous working capital line of credit. The interest rate was 7.90% per annum and the monthly principal and interest payments were $27,205.
(3) On July 24, 1999, as amended, we entered into a borrowing arrangement under

a revolving line of credit in the maximum amount of $2.5 million. During March 2003 we temporarily used $1,735,000 of our proceeds from our public offering on Form SB-2 to pay down the line of credit to $0, which at that time had an interest rate of 3.8375%. On June 16, 2003, we renewed and restructured the line of credit with the bank, reducing the maximum availability to $1.5 million and permanently retiring $235,000.

(4) 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 Kings Brothers, LLC. The 1.09% revenue bonds, 2.09% inclusive of the 1% letter of credit fee, as of June 30, 2004, are payable in varying annual principal and monthly interest payments through July 2019. The bond is secured, as amended on April 7, 2003, by specific equipment assets of the Company and by real property owned by Kings Brothers, LLC. A loan agreement between the Authority and the Company and Kings Brothers, LLC 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 relocate, purchase and install certain manufacturing equipment, while $974,128 was used by Kings Brothers, LLC 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. As of

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December 31, 2004, the bond principal outstanding was $2,725,000 and the portion due from Kings Brothers, LLC was $647,428. The $846,264 of principal to be repaid under the IDR bond, as reallocated hereinabove, is the Company's share of the bond principal due and payable on the 1st of July 2003, 2004 and 2005, respectively.

(5) From July 2003 through March 31, 2005, under the repurchase program the Company has repurchased 84,700 shares of our common stock on the open market for $56,133, or at an average price of $0.66. All of the shares repurchased under the program have been cancelled and retired as of March 31, 2005. There remains $943,867 available for future common stock repurchases under the authorization of the board of directors and $443,867 as allocated by management hereinabove.

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

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

The Company's share of the principal payment due under the IDR Bond on July 1, 2003, in the amount of $266,840 has been paid, and as of March 31, 2005, $282,088 was paid on the IDR bond debt due July 1, 2004. The above table reflects the July 1, 2003 and 2004 payments on the IDR bond. The Company's share of the principal payment due under the IDR bond on July 1, 2005, is $297,336. With the amendment of the Joint Debtor Agreement between the Company and Kings Brothers, LLC, Kings Brothers' portion of the outstanding principal due under the IDR bond was prepaid on March 8, 2005 and was applied to the entire principal installment due July 1, 2005. As a result, the Company does not have a principal installment to pay on July 1, 2005 under the IDR bond, and instead the Company's next installment in the amount of $405,000 will be due July 1, 2006.

Pending application, we have retained the balance of the net proceeds in a deposit account with the bank and an investment account with a securities firm

related to the bank.

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

ISSUER MARKET PURCHASES OF EQUITY SECURITIES

On April 18, 2003, the Company established a stock repurchase program under which the Company may purchase on the open market the lesser of the aggregate value of $1,000,000 or 1,000,000 shares in compliance with Rule 10b-18 until September 30, 2005, as extended by the board of directors during the annual meeting held on May 18, 2004, and we have reallocated proceeds for this program. From July 2003 through December 31, 2003, under the repurchase program the Company repurchased 44,500 shares of our common stock on the open market at an average price of $0.65. From January 1 through December 31, 2004, under the repurchase program the Company has repurchased 40,200 shares of our common stock on the open market at an average price of $0.68. From January 1 through March 31, 2005, the Company has not repurchased any of our common stock. Since the inception of the repurchase program the Company has repurchased 84,700 shares of our common stock for $56,133 and at an average price of $0.66. There remains $943,867 available for future common stock repurchases, as authorized by the board of directors.

ISSUER (MARKET) PURCHASE OF EQUITY SECURITIES

Period	Total Number of Shares Purchased	Average Price Paid per Share ($)	Total Number of Shares Purchased as Part of Publicly Publicly Announced Plans or Programs	Maximum Number (or Approximate Dollar Value) of Shares that May Be Purchased Under the Plans or Programs
During 2003 (1)	59,500	0.69	59,500	
During 2004	40,200	0.68	40,200	
During 2005				
January	0	--	0	
February	0	--	0	
March	0	--	0	
Total 2005	0	--	0	1,000,000
Total	99,700	0.66	99,700	1,000,000

(1) Includes 15,000 shares purchased by Jui-Chi Wang, who may be deemed to be an affiliated purchaser under Rule 10b-18. These shares are not included in the Company's stock repurchase program.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None

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

None

ITEM 5. OTHER INFORMATION

None

ITEM 6 -EXHIBITS
(a) EXHIBITS

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

	Development Trust Indenture dated June 1, 1999, incorporated by reference to Exhibit 4.27 to the Registration statement on Form SB-2 filed May 31, 2002.
4.5	Loan Agreement between the Company, Kings Brothers LLC and the Development Authority of Gwinnett County, Georgia dated June 1, 1999, incorporated by reference to Exhibit 4.28 to the Registration statement on Form SB-2 filed May 31, 2002.
4.6	Joint Debtor Agreement dated June 28, 2000 by and among Color Image, Inc., Kings Brothers, LLC, Dr. Sueling Wang, Jui-Chi Wang, Jui-Kung Wang, and Jui-Hung Wang, incorporated by reference to Exhibit 4.28 to the Registration statement on Form SB-2 filed February 11, 2002.
4.7	First Amendment to Joint Debtor Agreement dated January 1, 2001 by and among Color Imaging, Kings Brothers, LLC, Dr. Sueling Wang, Jui-Chi Wang, Jui-Kung Wang, and Jui-Hung Wang, incorporated by reference to Exhibit 4.29 to the Registration statement on Form SB-2 filed February 11, 2002.

Exhibit No.	Description
4.8	$500,000 Promissory Note between Color Imaging and Sueling Wang dated March 14, 2002, incorporated by reference to Exhibit 4.34 to the Registration statement on Form SB-2 filed April 11, 2002.
4.9	$500,000 Promissory Note between Color Imaging and Jui Hung Wang dated August 21, 2002, incorporated by reference to Exhibit 4.50 to the Registration statement on Form SB-2 filed October 2, 2002.
4.10	$100,000 Promissory Note between Color Imaging and Jui Chi Wang dated August 21, 2002, incorporated by reference to Exhibit 4.51 to the Registration statement on Form SB-2 filed October 2, 2002.
4.11	First Note Modification Agreement between Sueling Wang and Color Imaging dated August 27, 2002, incorporated by reference to Exhibit 4.52 to the Registration statement on Form SB-2 filed October 2, 2002.
4.12	Amended and restated $1,500,000 revolving note between Color Imaging and SouthTrust Bank dated June 16, 2003, incorporated by reference to Exhibit 4.12 to the Registrant's Form 10-Q for the quarter ended June 30, 2003.
4.13	Amended and restated loan and security agreement between Color Imaging and SouthTrust Bank dated June 16, 2003, incorporated by reference to Exhibit 4.13 to the Registrant's Form 10-Q for the quarter ended June 30, 2003.
4.14	Amendment to Loan Documents between Color Imaging and SouthTrust Bank dated June 29, 2004, incorporated by reference to Exhibit 4.14 to the Registrant's Form 10-Q for the quarter ended June 30, 2004.
10.1	Second Amendment to Joint Debtors Agreement by and between the Registrant and Kings Brothers LLC, incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed On March 15, 2005.
31.1+	Chief executive officer's certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2+	Chief financial officer's certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1+	Chief executive officer's certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2+	Chief financial officer's certification pursuant to Section 906

of the Sarbanes-Oxley Act of 2002.

+ Filed herewith.

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

SIGNATURES

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

COLOR IMAGING, INC.

/S/ JUI-KUNG WANG

May 11, 2005

Jui-Kung Wang
Chief Executive Officer

/S/ MORRIS E. VAN ASPEREN

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