

COLOR IMAGING, INC.
a Delaware corporation

December 31, 2005
Annual Report

Principal Executive Offices

4350 Peachtree Industrial Blvd, Suite 100

Norcross, GA 30071

(770) 840-1090 Fax (770) 242-3494

www.colorimaging.com

CUSIP: 196245 20 3 Symbol: CIIG

COLOR IMAGING, INC.

ANNUAL REPORT
FOR THE TWELVE MONTHS ENDED DECEMBER 31, 2005

TABLE OF CONTENTS

	<u>PAGE NO.</u>
INTRODUCTION	3
SELECTED FINANCIAL DATA	4
MANAGEMENT'S DISCUSSION/ANALYSIS AND RESULTS OF OPERATIONS.....	5
OTHER INFORMATION.....	18
CERTAIN IMPORTANT FACTORS.....	22
AUDITORS' OPINION.....	29
FINANCIAL STATEMENTS.....	30
DIRECTORS AND EXECUTIVE OFFICERS.....	46

INTRODUCTION

This Annual Financial Report ("Report") contains forward-looking statements (statements that are not historical in nature). 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, realizing any savings and improved profitability as a result of our going private, our intention to purchase capital assets from our cash flow or by using financial institution credit facilities, the ability to expand capacity or upgrade manufacturing capabilities by placing in service additional manufacturing equipment and making use of that capacity or capability, our expected acquisition of business or technologies, whether or not we will maintain our ability to be public or will remain 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 toners using chemical materials, and our increasing our sales from business color cartridges, digital copier, color and magnetic character recognition toner products, including products using chemical toner base materials, 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 later herein.

Various risks and uncertainties could cause actual results to differ materially from those expressed in such forward-looking statements. These risks and uncertainties include but are not limited to the continued demand for printed financial documents, particularly in highlight or full color; the expected entry into the market of competitors with aftermarket full color products; the market acceptance of products incorporating full color or chemical particle toners; our ability to enhance existing products and develop new products; our ability to hire and retain qualified management, technology and other personnel; the impact of competition from existing and new technologies and companies; and the other factors set forth below under the heading "Certain Important Factors" in this Report. These forward-looking statements speak only as of the date of this Report. We expressly disclaim any obligation or undertaking to release publicly any updates or revisions to any forward-looking statements contained in this Report to reflect any change in our expectations or any change in the events, conditions or circumstance on which any such statement is based.

All references to "Color Imaging," "we," "us," "our" or "the Company" means Color Imaging,, Inc.

SELECTED FINANCIAL DATA

Summary Statements of Operations Data: (in thousands, except per share data)

For the year ended December 31:	2001	2002	2003	2004	2005
Net sales	\$29,970	\$28,000	\$21,058	\$21,835	\$21,948
Gross profit	4,372	4,579	5,269	5,552	6,628
Net income from continuing operations	254	430	433	464	593
(Loss) from operations of subsidiary disposed of – net of income tax	(204)	(261)	--	--	--
Net income	50	169	433	464	593
Basic net income per share	\$.01	\$.02	\$.04	\$.04	\$.05
Diluted net income per share	\$.01	\$.02	\$.04	\$.04	\$.05
Weighted average diluted shares outstanding	8,560	9,686	11,980	12,710	12,529

Summary Balance Sheet Data: (in thousands)

At December 31:	2001	2002	2003	2004	2005
Working capital (1)	\$ 2,088	\$ 1,797	\$ 6,456	\$ 7,415	\$ 7,145
Total assets (1)	\$17,553	\$16,113	\$17,895	\$16,696	\$15,879
Long-term debt (net of current portion)	\$ 4,798	\$ 4,683	\$ 3,149	\$ 2,943	\$ 2,985
Stockholder's equity	\$ 7,608	\$ 5,241	\$11,219	\$11,656	\$10,980

(1) 2001 net of the assets of the discontinued subsidiary.

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.

On April 14, 2005, the Company's Board of Directors approved a reverse split using one of three potential ratios: 1-for-1500, 1-for-2500 or 1-for-5000 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 whereby Color Imaging would voluntarily terminate the registration of its Common Stock under the Securities Exchange Act of 1934. On May 2, 2005, the Special Committee of the Board of Directors of the Company obtained a fairness opinion, confirming the approved \$1.10 price per pre-split share as the price to be paid for the fractional shares cashed out in the going private transaction. On September 19, 2005, the stockholders of Color Imaging approved the reverse split proposal to effect the going private transaction, and thereafter the Board of Directors approved the reverse split ratio of 1 for 2500 and authorized and directed management to complete the going private transaction. Effective upon the opening of business on September 22, 2005, the amendments to the Company's certificate of incorporation to affect the reverse split of 1 for 2500 followed by a forward split of 2500 for 1 was filed. As of the effective date, the Company had 73 stockholders of record, and on September 28, 2005, filed Form 15 to deregister with the SEC, becoming a non-reporting company. As a result of the going private transaction, the Company repurchased and retired 975,877 of its common shares at the pre-split price of \$1.10 for \$1,073,465 and incurred \$204,256 in other costs in connection with the transaction. Upon completion of the going private transaction the Company effected a 2500 for 1 forward split of our common shares and had 11,729,428 shares issued and outstanding.

Recent Developments

On October 26, 2005, the Company entered into an amendment to the Second Amended and Restated Loan and Security Agreement between the Company and its bank, modifying the definition of certain terms affecting eligible accounts receivable in the borrowing base of the Company's \$3 million revolving line of credit. The amendment includes as eligible receivables for borrowing purposes insured foreign receivables up to 50% of the sum of all other eligible accounts and defines concentrations with a single account debtor as 25% of the net amount of all accounts, excluding from eligible accounts for borrowing purposes only the amount above the 25% limitation. The Company believes that this amendment will have no effect on the Company's borrowing capacity under the credit facility.

On January 10, 2006, the Audit Committee of the Board of Directors of the Company approved a change in independent auditors. Though a formal engagement has not been executed, when it is executed the Company's selection of Moore Colson will commence for the year 2006. There were no disagreements regarding accounting matters between the Company and Lazar Levine & Felix LLP.

Products

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 bulk and bottled toners and imaging drums.

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.

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. 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. We believe business color products are the future and we realize higher gross margins on color copier products as compared to black and white products. For these reasons we have been putting a stronger emphasis on these products in our research and development and sales efforts, and as a result have experienced an improvement in our margins over the past year.

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 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. 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.

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 to dealers directly.

We believe the trends in the electronic printing and photocopying industry affecting original equipment manufacturers ("OEMs") 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 is increasingly competitive.
- (3) Reduced selling prices of their devices while increasing their printing speed, functionality and networkability.
- (4) 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) Endeavoring to control the market for consumable supplies through the use of technological barriers to market entry for re-manufacturers of these products or manufacturers of like, new, aftermarket products.
- (6) The utilization of prebate (license arrangements) and recycling programs to reduce the number of OEM cartridges available for remanufacture in the aftermarket.
- (7) 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.
- (8) 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.
- (9) Increased machine reliability, reducing the need for dealer sales, maintenance and support.

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, producing 100% new alternatives to the OEM and not subject to the availability of the used core of the OEM toner cartridge.

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.

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 and distribution channels remanufactured product have consistently enjoyed only a 30% share of the market, leaving 70% of the users buying 100% new product from the OEM or other new aftermarket suppliers such as Color Imaging. 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 to 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.

GOVERNMENT REGULATION

Color Imaging's manufacturing operations are subject to laws and regulations relating to environmental matters that impose limitations on the discharge of pollutants into the air, water and soil and establish standards for the treatment, storage and disposal of solid and hazardous wastes, and Color Imaging is required to have a permit in order to conduct various aspects of its business. The Air Protection Branch of the State of Georgia's Department of Natural Resources Environmental Protection Division issued a permit to Color Imaging in 2000 to construct and operate a copier and printer toner manufacturing facility at our headquarters. The permit is conditioned upon compliance by us with the provisions of the Georgia Air Quality Act, and specifically the Rules, Chapter 391-3-1, in effect. In addition to operating and maintaining the equipment, in a manner consistent with good air pollution control practice to minimize emissions, we must maintain records, conduct tests, and comply with certain allowable emissions and operational limitations. The permit is subject to revocation, suspension, modification or amendment for cause, including evidence of our noncompliance. Compliance with these laws and regulations in the past has not had a material adverse effect on our capital expenditures, earnings or competitive position. However, there can be no assurance that future changes in environmental laws, regulations or the criteria required to obtain or maintain necessary permits will not have a material adverse effect on us.

EMPLOYEES

As of December 31, 2005, 2004 and 2003 the Company's full and part-time employees, including those with advanced degrees and those engaged in operations (manufacturing and quality assurance), research and development ("R&D"), sales and marketing or general and administrative ("SG&A") positions were as follows:

Calendar Year-end	Total Number of Employees	No. Full & Part Time		No. with Advanced Degrees		Number by Department		
		Full-time	Part-time	PhD	Masters	Operations	R&D	SG&A
2005	98	97	1	7	17	55	17	26
2004	81	79	2	5	11	39	10	30
2003	91	91	-	5	9	41	11	39

FACILITIES

We currently lease a facility of approximately 180,000 square feet in Norcross, Georgia from an affiliated party. This facility serves as our executive headquarters and houses our toner manufacturing facilities, as well as our research and development and sales and marketing departments. On February 5, 2003, we amended the lease to extend the term from March 31, 2009 to March 31, 2013 for this facility and it includes three options at our election to extend the term for five years each. The rental payments for 2005, 2004 and 2003 were \$558,348, \$544,728 and \$531,444, respectively, subject to annual increases of 2.5% until the end of the term. Management considers its facility to be sufficient for its operations for the foreseeable future. On August 15, 2003, we entered into a one-year lease for a 2,450 square foot facility in Buena Park, CA to serve as a west coast sales office and local warehouse, and effective August 31, 2004 this facility is leased on a month-to-month basis.

Results of Operations

The following table sets forth, for the periods indicated, selected information derived from Color Imaging's consolidated statements of operations and expressed as a percentage of net sales.

	Twelve Months Ended December 31,		
	2005	2004	2003
Net Sales	100	100	100
Costs of goods sold	70	75	75
Gross profit	30	25	25
Administrative expense	7	6	8
Research and development	7	5	6
Sales and marketing	13	11	8
Operating Income	4	3	3
Interest and financing costs	1	1	1
Depreciation and amortization	3	5	7
Income before taxes	4	4	3
Provision for taxes (credit)	1	2	1
Net income (loss) from continuing operations	3	2	2

YEARS ENDED DECEMBER 31, 2005 AND 2004

Net Sales. Net sales and related changes are as follows:

	Twelve months ended December 31,				Percent of net sales	
	2005	2004	Change	% Change	2005	2004
	(amounts in thousands)					
Sales, domestic	\$ 10,157	\$ 11,922	(\$1,765)	(14%)	46.3%	54.6%
Sales, international	11,791	9,913	1,878	19%	53.7%	45.4%
Sales, net	\$ 21,948	\$ 21,835	\$ 113	1%	100.0%	100.0%

Our net sales increased to \$21.9 million, or 1%, for the twelve months ended December 31, 2005, from \$21.8 million for the twelve months ended December 31, 2004. Net sales made in the United States were \$10.1 million, a decrease of \$1.8 million, or 14%, from \$11.9 million made in the comparable period in 2004. The decrease in net sales made in the United States resulted primarily from reduced sales to our largest customer and lower demand for bulk laser toners. While sales to our largest customer decreased by 54% from \$5.4 million to \$2.5 million for the twelve months ended December 31, 2005 compared to 2004, and are expected to continue to decline in 2006, sales to other than our largest customer increased by \$3.0 million to \$19.5 million, or by 18%. During 2006, unless our largest customer approves and purchases substantial quantities of our digital color copier products, we expect that sales to our largest customer will continue to decline but will be offset by the increases in sales to other customers.

Cost of Goods Sold. Cost of goods sold, related changes and percent of net sales are as follows:

	Twelve months ended December 31,				Percent of net sales	
	2005	2004	Change	% Change	2005	2004
	(amounts in thousands)					
Cost of goods sold	\$ 15,320	\$ 16,283	(\$ 963)	(6%)	69.8%	74.6%

Cost of goods sold decreased, even after a \$91,000 one-time charge in connection with the change to our capitalization policy (see financial statement Note 4: Property and Equipment), by approximately \$1.0 million, or 6%, to \$15.3 million from \$16.3 million for the twelve months ended December 31, 2005 from the comparable period in 2004, primarily as the result of a greater percentage of our net sales being derived from higher margin digital color copier products. Cost of goods sold as a percentage of net sales was 70% for the twelve months ended December 31, 2005, compared to 75% for 2004. New digital color products being introduced and sold during 2006 are expected to result in our further reducing our cost of sales during 2006.

Gross Profit. Gross profit, related changes and percent of net sales are as follows:

	Twelve months ended December 31,				Percent of net sales	
	(amounts in thousands)				2005	2004
	2005	2004	Change	% Change	2005	2004
Gross profit	\$ 6,628	\$ 5,552	\$ 1,076	19.4%	30.2%	25.4%

As a result of the above factors, gross profit increased to \$6.6 million, or \$1.1 million and 19%, to 30% of net sales, in the twelve months ended December 31, 2005 from \$5.5 million, or 25% of net sales, in the twelve months ended December 31, 2004.

Operating Expenses. Operating expenses, related percent changes and percent of net sales are as follows:

	Twelve months ended December 31,				Percent of net sales	
	(amounts in thousands)				2005	2004
	2005	2004	Change	% Change	2005	2004
Operating expenses	\$ 5,802	\$ 4,916	\$ 886	18.0%	26.4%	22.5%

Operating expenses increased \$0.9 million, or 18%, to \$5.8 million in the twelve months ended December 31, 2005 from \$4.9 million in the twelve months ended December 31, 2004. Operating expenses as a percentage of net sales increased from 22.5% to 26.4% in the 2005 compared to 2004. Increases in selling and R&D expenses accounted for most of the increase in operating expenses in 2005 compared to 2004, as explained hereafter.

Administrative Expenses. Administrative expenses, related percent changes and percent of net sales are as follows:

	Twelve months ended December 31,				Percent of net sales	
	(amounts in thousands)				2005	2004
	2005	2004	Change	% Change	2005	2004
Administrative expenses	\$ 1,500	\$ 1,374	\$ 126	9.2%	6.8%	6.4%

General and administrative expenses increased approximately 9.2%, or \$126,000 to \$1.5 million, including the one-time charge of approximately \$18,000 in connection with the change in our capitalization policy (see financial statement Note 4: Property and Equipment), for the twelve months ended December 31, 2005 from the comparable period in 2004. We incurred approximately \$80,000 of deferred expenses written off in 2005, exploring strategic alternatives and a possible transaction that was not completed.

Sales and Marketing Expenses. Sales and marketing expenses, related percent changes and percent of net sales are as follows:

	Twelve months ended December 31,				Percent of net sales	
	(amounts in thousands)					
	2005	2004	Change	% Change	2005	2004
Sales and marketing expenses	\$ 2,847	\$ 2,371	\$ 476	20%	13%	11%

Selling expenses increased by \$0.5 million, or 20%, in the twelve months ended December 31, 2005 compared to the twelve months ended December 31, 2004. Selling expenses increased primarily as a result of increased payrolls and expenses in connection with the Company's expansion of its direct sales force. With our net sales being derived increasingly from the sales of our direct sales staff and through our manufacturers' representatives, and with increased sales planned for 2006 together with the hiring of additional sales personnel during 2005 and 2006, we expect our selling expenses to further increase in 2006.

Research and Development Expenses. Research and development expenses, related percent changes and percent of net sales are as follows:

	Twelve months ended December 31,				Percent of net sales	
	(amounts in thousands)					
	2005	2004	Change	% Change	2005	2004
Research and development expenses	\$ 1,455	\$ 1,172	\$ 283	24.1%	6.6%	5.4%

Research and development expenses increased \$0.3 million, or 24%, to \$1.5 million, including the \$94,000 one-time charge in connection with the change in our capitalization policy (see financial statement Note 4: Property and Equipment), in the twelve months ended December 31, 2005 compared to 2004. \$150,000 of the increase was due to increased testing expenses in connection with our digital color toner products, while \$90,000 resulted from the non-recurring write-off of capital assets with an acquisition cost of less than \$5,000. We have expanded the R&D staff and are increasing more of our new product development expenditures for the more complex digital color toners, which require significant testing, and as a result we expect to increase research and development expenditures in 2006 in an effort to develop and bring to market more new products before our competition.

Operating Income. Operating income, related percent changes and percent of net sales are as follows:

	Twelve months ended December 31,				Percent of net sales	
	(amounts in thousands)					
	2005	2004	Change	% Change	2005	2004
Operating income	\$ 826	\$ 636	\$ 190	29.9%	3.8%	2.9%

As a result of the above factors, operating income increased by \$190,000, or 30%, to \$826,000, even after the one-time charge in the aggregate of approximately \$203,000 in connection with the change in our capitalization policy (see financial statement Note 4: Property and Equipment), in the twelve months ended December 31, 2005 from \$636,000 in the twelve months ended December 31, 2004.

Interest and Finance Expense. Interest expense increased by \$21,000, or 23%, in the twelve months ended December 31, 2005 from the twelve months ended December 31, 2004. The increase was primarily the result of higher interest rates and increased interest bearing debt levels.

Other Income. Other income decreased by \$126,000, from income of \$229,000 to income of \$104,000 in the twelve months ended December 31, 2005 from the twelve months ended December 31, 2004, as the result of \$149,000 less of Euro currency gains.

Income Taxes. As the result of our profit in the twelve months ended December 31, 2005, we recorded an income tax provision of \$225,000 for the period, net of the elimination of \$112,500 valuation allowance for deferred tax assets, while the income tax provision was \$311,000 for the twelve months ended December 31, 2004.

YEARS ENDED DECEMBER 31, 2004 AND 2003

Net Sales. Net sales and related changes are as follows:

	Twelve months ended December 31,				Percent of net sales	
	(amounts in thousands)				2004	2003
	2004	2003	Change	% Change	2004	2003
Sales, domestic	\$ 11,922	\$ 12,507	(\$ 585)	(4.7%)	54.6%	59.4%
Sales, international	9,913	8,551	1,362	15.9%	45.4%	40.6%
Sales, net	\$ 21,835	\$ 21,058	\$ 777	3.7%	100.0%	100.0%

Our net sales increased to \$21.8 million, or 4%, for the twelve months ended December 31, 2004, from \$21.1 million for the twelve months ended December 31, 2003. Net sales made in the United States were \$11.9 million, a decrease of \$0.6 million, or 5%, from \$12.5 million made in the comparable period in 2003. The decrease in net sales made in the United States resulted primarily from reduced sales to our largest customer and lower demand for bulk laser toners. While sales to our largest customer decreased by 11% from \$6.1 million to \$5.4 million for the twelve months ended December 31, 2004 compared to 2003, and are expected to continue to decline in 2005, sales to other than our largest customer increased by \$1.4 million to \$16.4 million, or by 9%.

Cost of Goods Sold. Cost of goods sold, related changes and percent of net sales are as follows:

	Twelve months ended December 31,				Percent of net sales	
	(amounts in thousands)				2004	2003
	2004	2003	Change	% Change	2004	2003
Cost of goods sold	\$ 16,283	\$ 15,789	\$ 494	3.1%	74.6%	75.0%

Cost of Goods Sold. Cost of goods sold increased by \$0.5 million, or 3%, to \$16.3 million from \$15.8 million for the twelve months ended December 31, 2004 from the comparable period in 2003, primarily as the result of the increase in net sales from lower margin all-in-one products. Cost of goods sold as a percentage of net sales was 75% for the twelve months ended December 31, 2004 and 2003. The increase in costs of goods sold in connection with the sale of some \$2.5 million of low margin all-in-one products was offset by the decrease in the cost of goods sold attributable to the sale of digital color copier products.

Gross Profit. Gross profit, related changes and percent of net sales are as follows:

	Twelve months ended December 31,				Percent of net sales	
	(amounts in thousands)				2004	2003
	2004	2003	Change	% Change	2004	2003
Gross profit	\$ 5,552	\$ 5,269	\$ 283	5.4%	25.4%	25.0%

As a result of the above factors, gross profit increased to \$5.6 million, or 5%, to 25% of net sales in the twelve months ended December 31, 2004 from \$5.3 million, or 25% of net sales, in the twelve months ended December 31, 2003.

Operating Expenses. Operating expenses, related percent changes and percent of net sales are as follows:

	Twelve months ended December 31,				Percent of net sales	
	-----				-----	
	(amounts in thousands)				2004	2003
	2004	2003	Change	% Change	2004	2003
	-----	-----	-----	-----	-----	-----
Operating expenses	\$ 4,916	\$ 4,601	\$ 315	6.9%	22.5%	21.8%

Operating expenses increased \$0.3 million, or 7%, to \$4.9 million in the twelve months ended December 31, 2004 from \$4.6 million in the twelve months ended December 31, 2003. General and administrative, selling and R&D expenses increased, as a percentage of net sales, to 23% in the twelve months ended December 31, 2004 from 22% in the twelve months ended December 31, 2003 as the result of the increased marketing and sales expenses.

Administrative Expenses. Administrative expenses, related percent changes and percent of net sales are as follows:

	Twelve months ended December 31,				Percent of net sales	
	-----				-----	
	(amounts in thousands)				2004	2003
	2004	2003	Change	% Change	2004	2003
	-----	-----	-----	-----	-----	-----
Administrative expenses	\$ 1,374	\$ 1,680	(\$ 306)	(18.2%)	6.3%	8.0%

General and administrative expenses decreased approximately 18%, or \$0.3 million to \$1.4 million for the twelve months ended December 31, 2004 from the comparable period in 2003, largely resulting from a lower bonus amount paid in 2004 compared to 2003, and reductions in legal and professional fees and payroll related expenses.

Sales and Marketing Expenses. Sales and marketing expenses, related percent changes and percent of net sales are as follows:

	Twelve months ended December 31,				Percent of net sales	
	-----				-----	
	(amounts in thousands)				2004	2003
	2004	2003	Change	% Change	2004	2003
	-----	-----	-----	-----	-----	-----
Sales and marketing expenses	\$ 2,371	\$ 1,746	\$ 625	35.8%	10.9%	8.3%

Selling expenses increased by \$0.6 million, or 36%, in the twelve months ended December 31, 2004 compared to the twelve months ended December 31, 2003. Selling expenses increased primarily as a result of \$0.5 million of increased in payroll related expenses from the opening of the California sales office in late 2003 and the hiring of the senior vice president of marketing and sales effective April 1, 2004.

Research and Development Expenses. Research and development expenses, related percent changes and percent of net sales are as follows:

	Twelve months ended December 31,				Percent of net sales	
	-----				-----	
	(amounts in thousands)				2004	2003
	2004	2003	Change	% Change	2004	2003
	-----	-----	-----	-----	-----	-----
Research and development expenses	\$ 1,172	\$ 1,176	(\$ 4)	0.3%	5.4%	5.6%

Research and development expenses remained approximately the same, some \$1.2 million, in the twelve months ended December 31, 2004 and 2003.

Operating Income. Operating income, related percent changes and percent of net sales are as follows:

	Twelve months ended December 31,				Percent of net sales	
	(amounts in thousands)				2004	2003
	2004	2003	Change	% Change	2004	2003
Operating income	\$ 636	\$ 667	(\$ 31)	(4.6%)	2.9%	3.2%

Operating Income. As a result of the above factors, operating income decreased by \$31,000, or 5%, to \$636,000 in the twelve months ended December 31, 2004 from \$667,000 in the twelve months ended December 31, 2003.

Interest and Finance Expense. Interest expense decreased by \$74,000, or 44%, in the twelve months ended December 31, 2004 from the twelve months ended December 31, 2003. The decrease was primarily the result of reduced interest bearing debt levels. We reduced significantly our debt outstanding with proceeds from our public offering of common stock in 2003.

Other Income. Other income increased by \$11,000, from income of \$219,000 to income of \$230,000 in the twelve months ended December 31, 2004 from the twelve months ended December 31, 2003, primarily as the result of \$155,000 of Euro currency gains.

Income Taxes. As the result of our profit from continuing operations in the twelve months ended December 31, 2004, we recorded an income tax provision of \$311,000 for the period, while the income tax provision was \$288,700 for the twelve months ended December 31, 2003.

Backlog

We sell our products on a purchase order basis rather than through long-term contracts. Other than scheduled orders for a future shipping date, we typically ship product the same day and any backorders shortly thereafter. We do not consider backlog to be a reliable indicator of future financial results.

Liquidity and Capital Resources

At December 31, 2005 and December 31, 2004, our working capital and current ratio was approximately \$7.1 million and \$7.4 million and 4.7 to 1 and 4.5 to 1, respectively. Our working capital declined in 2005 primarily due to the repurchase of our common shares in our going private transaction.

Cash provided by operating activities was \$1,485,000 in the twelve months ended December 31, 2005 compared to \$852,000 in the twelve months ended December 31, 2004. The cash provided by operating activities in the twelve months ended December 31, 2005 increased primarily due to the prepayment of IDR bond obligations by our affiliate and increased profits net of increases in accounts receivable and inventories.

Cash used in investing activities was \$1,091,000 in the twelve months ended December 31, 2005, compared to \$222,000 in the twelve months ended December 31, 2004. The increase in cash used in investing activities in the twelve months ended December 31, 2005, was due to the increased capital expenditures in connection with the acquisition and installation of additional factory, laboratory and information technology equipment.

The Company has a \$3 million revolving line of credit, as amended on September 19 and October 26, 2005, under which \$2,438,259 is available for borrowings for working capital and or the issuance of letters of credit with an outstanding borrowing balance and standby letters of credit of \$0 and \$500,000, respectively, as of December 31, 2005, bearing interest at the one-month Libor interest rate in effect two business days before the first day of the month plus 1.85%. As of December 31, 2005, the interest rate was the one-month Libor rate of 4.38% plus 1.85% (6.23%). This revolving line of credit has a June 30, 2007 expiration date. Under the line of credit, the Company is permitted to borrow up to 75% of eligible accounts receivable, with foreign receivables limited to one third of the total accounts receivable availability, and 50% of eligible inventories (up to a maximum of \$1,500,000 and not to exceed 50% of the total outstanding). Letters of credit may be issued under the revolving line of credit, reducing the availability for borrowings, of \$1,000,000 and \$500,000 for standby and import letters of credit to facilitate the purchase of inventory from non-affiliated suppliers. As of December 31, 2005, the Bank has issued an irrevocable standby letter of credit, as amended, in the amount of \$500,000 for the benefit of a non-affiliated foreign supplier. The standby letter of credit has an expiration date of June 30, 2006. The Company has equipment lines of credit aggregating \$1,000,000, \$500,000 for equipment acquired each of the years ended June 30, 2006 and 2007, for up to 80% of the cost of the acquisition of eligible capital equipment, excluding soft costs and installation, or the refinancing of principal amounts due in 2006 and 2007 on the industrial development

bond. Under the equipment lines of credit approved by the Bank, amounts advanced would be payable interest only during the fiscal year in which advanced at the one-month Libor rate plus 1.85% and then be converted to a term loan with level principal payments over five years, maturing June 30, 2011 and 2012. The Company has granted the Bank a security interest in all of the Company's assets as security for the repayment of the obligations under to the Bank. The Bank agreement also contains various covenants that the Company is required to maintain, and as of December 31, 2005, the Company was in compliance with these covenants.

Cash used in financing activities was \$1,707,000, primarily for the completion of our going private transaction and the repurchase of some 975,000 shares of our common stock and the prepayment of IDR bond obligations for the twelve months ended December 31, 2005 compared to cash used in financing activities of \$799,000 for the same period in 2004 for the payment of IDR bond obligations and related party debt.

We believe that existing cash balances, cash expected to be generated by operating activities, and funds available under our credit facilities will be, in the aggregate, sufficient to finance our operating and investing activities for at least the next 12 months, which will include expenditures of approximately \$750,000 for manufacturing equipment, \$150,000 for the acquisition and installation of research and development equipment and \$595,000 in principal due under the IDR bond and any advances made by our bank on our behalf under our off-balance sheet standby letter of credit arrangement of \$500,000 issued to a non-affiliated foreign supplier.

Critical Accounting Policies and Estimates

Application of Critical Accounting Policies

"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, 2005, 2004 and 2003 our write-offs were approximately \$33,685, \$9,638 and \$41,339, or an average of less than \$30,000 per year. As of December 31, 2005, we had \$2,529,978 of accounts receivable net of a \$47,278 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 markdowns 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, 2005, 2004 and 2003 we made inventory obsolescence reserves of \$515,000, \$280,000 and \$275,000, totaling \$1,070,000, or an average of \$357,000 per year, and we have written-down or disposed of approximately \$548,000, \$296,000 and \$212,000 for the same period for a total of \$1,057,000 of inventory, or an average of \$352,000 per year. Our experience over the last few years, and with the thorough review of all inventory conducted throughout 2005, has indicated an obsolescence rate of approximately \$15,000 per month should be sufficient for 2006. As of December 31, 2005, we had approximately \$5,681,000 of inventory net of approximately a \$49,000 provision. The provisions are reflected in our income statement as an increase in cost of goods sold.

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). 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 of ninety (90) days to all purchasers of our bulk toner products and generally one year to those purchasing finished products. While we incurred \$29,000 of warranty expenses in 2005, we incurred no material warranty expenses for 2004 or 2003. With more of our net sales being increasingly derived from more complicated full color toners, we expect our warranty expense to increase during 2006, and as the result will make a provision of \$4,000 per month for the estimated cost of providing warranty coverage. On occasion, we have been required and may be required in the future to provide additional warranty coverage to ensure that our products are ultimately accepted or to maintain customer goodwill. While our warranty costs have historically not been significant we cannot guarantee that we will continue to experience a similar level of predictability with regard to warranty costs as we have in the past. In addition, the introduction of more expensive finished products, 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.

Off-balance sheet financings and liabilities

Other than lease commitments, standby letter(s) of credit and legal contingencies incurred in the normal course of business, we do not have any off-balance sheet financing arrangements or liabilities. We do not have any majority-owned subsidiaries or any interests in, or relationships with, any special-purpose entities.

Income taxes

Deferred taxes are provided on a liability method whereby deferred tax assets are recognized for deductible temporary differences, and operating loss and tax credit carry forwards and deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the reported amounts of assets and liabilities and their tax bases. Deferred tax assets are reduced by a valuation allowance when it is determined to be more likely than not that some portion or all of the deferred tax assets will not be realized. In evaluating the need for a valuation allowance, we consider future taxable income and prudent and feasible tax planning strategies. We have placed substantial reliance on our current projections of future taxable income. We reassess our projections of taxable income on a quarterly basis. If it is determined that we would not be able to realize all or part of our deferred tax assets in the future, which would include our failure to materially meet our projections of taxable income, an adjustment to the carrying value of the deferred tax assets would be charged to income in the period in which such determination was made and may affect our annual effective income tax rate. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment. As of December 31, 2005 and 2004 our balance sheet included a valuation allowance of 0% and 25%, respectively, against our deferred tax assets, reflecting management's belief that is more likely than not that the asset will be realized.

Recent Accounting Pronouncements

In May 2005, the FASB issued SFAS No. 154, "Accounting Changes and Error Corrections" ("SFAS No. 154"). SFAS No. 154 is a replacement of Accounting Principles Board Opinion No. 20 and SFAS No. 3. SFAS No. 154 provides guidance on the accounting for and reporting of accounting changes and error corrections. It establishes retrospective application as the required method for reporting a change in accounting principle. SFAS No. 154 provides guidance for determining whether retrospective application of a change in accounting principle is impracticable and for reporting a change when retrospective application is impracticable. SFAS No. 154 also addresses the reporting of a correction of an error by restating previously issued financial statements. SFAS No. 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. We will be adopting this pronouncement beginning in our fiscal year 2006 and do not currently believe that it will have a material impact on our financial statements.

OTHER INFORMATION

Quantitative and Qualitative Disclosures about Market Risks

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

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

We estimate that about 96% of our transactions are denominated in U.S. dollars, excepting those sales in Euros to a few customers in Europe. Accordingly, beginning in 2001, we are subject to foreign currency risk with respect to future costs or cash flows from our sales in Euros. We adjust our prices with respect to those sales to reflect the change in the exchange rate and do not expect to be subject to material foreign currency risk. 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 recognized a net foreign currency transaction gain of \$5,661 in the twelve months ended December 31, 2005, and we recognized a net foreign currency transaction gains of \$154,583 and \$149,000 in the years ended December 31, 2004 and 2003, respectively. Our pricing for our products sold in Euros is currently at the rates of 1.15 and 1.20 Euros relative to the U.S. dollar. A 10% change in the value of the Euro relative to the United States dollar would cause approximately an \$8,000 foreign currency translation adjustment in an average month, a type of other comprehensive income (loss), which would be a direct adjustment to stockholders' equity.

Our revolving and equipment lines of credit bear interest based on interest rates tied to the LIBOR rate, which may fluctuate over time based on economic conditions. As a result, we are subject to market risk for changes in interest rates and could be subjected to increased or decreased interest payments if market rates fluctuate and we are in a borrowing mode. At December 31, 2005, there was \$287,000 outstanding under the equipment line and, accordingly, a sustained increase in the reference rate of 1% would not cause our annual interest expense to change materially.

Our investment policy requires investments with high credit quality issuers and or over night repurchase agreements with our bank. Investments we make will principally consist of U.S. government and government agency obligations and investment-grade, interest-bearing corporate debt securities with varying maturity dates of five years or less, or the overnight purchase of securities held in our bank's investment portfolio. Because of the credit criteria of our investment policies, the primary market risk associated with these investments is interest rate risk. We do not use derivative financial instruments to manage interest rate risk or to speculate on future changes in interest rates. Our cash balances are swept overnight into repurchase arrangements with our bank. To repurchase our common stock to effect our going private transaction, on October 5, 2005, we sold all of the money market mutual fund and agency securities investments.

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.

Sale of Equity Securities and Use of Proceeds

On January 23, 2003, the Company's registration statement filed with the SEC on Form SB-2, registering up to 7 million shares of the Company's common stock, was declared effective (Registration Statement No. 333-76090), and the offering was commenced by the Company's officers and directors. On March 13, 2003, the Company completed the public sale of 4,500,000 shares of the Company's common stock at a price of \$1.35 per share, whereby the Company received \$6,075,000 in gross proceeds from an affiliate, and the Company terminated the offering before the sale of all 7 million of registered shares. 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 reallocated proceeds from our offering on SEC Form SB-2 for this program. In December 2004 the Company ceased purchasing the Company's common stock under the repurchase program, since it anticipated the going private transaction in 2005. On September 19, 2005, the Board of Directors did not extend the stock repurchase program and it, therefore, ended as of September 30, 2005.

On April 14, 2005, the Company's Board of Directors approved a reverse split using one of three potential ratios: 1-for-1500, 1-for-2500 or 1-for-5000 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 whereby Color Imaging would voluntarily terminate the registration of its Common Stock under the Securities Exchange Act of 1934. On May 2, 2005, the Special Committee of the Board of Directors of the Company obtained a fairness opinion, confirming the approved \$1.10 price per pre-split share as the price to be paid for the fractional shares cashed out in the going private transaction. On September 19, 2005, the stockholders of Color Imaging approved the reverse split proposal to effect the going private transaction and the Board of Directors approved the reverse split ratio of 1 for 2500 and authorized and directed management to complete the going private transaction. Effective upon the opening of business on September 22, 2005, the amendments to the Company's certificate of incorporation to affect the reverse split of 1 for 2500 followed by a forward split of 2500 for 1 was filed. As of the effective date, the Company had 73 stockholders of record, and on September 28, 2005, filed Form 15 to deregister with the SEC, becoming a non-reporting company. As a result of the going private transaction, the Company repurchased and retired, as of October 7, 2005, 975,877 of its common shares at the pre-split price of \$1.10 for \$1,073,465, incurring costs of approximately \$210,000 in connection with the transaction.

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 December 31, 2005, are listed below in descending order of priority:

Purpose:	Amount	Used	Reallocated	Remaining
Accounts payable and other corporate and offering expenses	\$ 1,000,000	\$ (115,042)	\$ (884,958)	\$ 0
To retire debt (1)	350,000	(324,301)	(25,699)	0
To retire debt (2)	1,050,000	(956,883)	(93,117)	0
To pay down revolving line of credit (3)	0	(1,494,351)	1,494,351	0
To reduce IDR Bond debt (4)	0	(548,928)	548,928	0
To acquire capital assets	1,500,000	(318,774)	(1,181,226)	0
To repurchase our stock and go private (5)	0	(1,284,515)	1,284,515	0
To repurchase our stock (6)	0	(56,133)	56,133	0
For other general corporate purposes including working capital	2,175,000	(975,073)	(1,198,927)	0
Total:	\$ 6,075,000	\$ (6,075,000)		\$ 0

(1) On November 30, 2000, we entered into a loan for \$500,000 with a 5-year term, secured by specific manufacturing equipment, maturing November 30, 2004, with General Electric Capital Corporation for the purchase of toner manufacturing equipment. The interest rate is 10.214% and the monthly principal and interest payments were \$10,676.39. During March 2003, using proceeds from the offering, the Company retired debt owed to General Electric Capital Corporation 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.

(2) On June 24, 1999, we entered into a loan for \$1,752,000 with a 7-year term, secured by our business assets, maturing June 24, 2006, with SouthTrust Bank for the refinancing of obligations owing the bank for the acquisition of equipment and that due under a previous working capital line of credit. The interest rate is 7.90% per annum and the monthly principal and interest payments were \$27,205.00. During March 2003, using proceeds from the offering, the Company retired debt owed to SouthTrust Bank (now Wachovia 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.

(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 to pay down the line of credit to \$0, which at that time had an interest rate of 3.8375%.

(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 September 30, 2004, the bond principal outstanding was \$2,725,000 and the portion due from Kings Brothers, LLC was \$647,428. The \$548,928 of principal due and repaid under the IDR bond during 2003 and 2004, as reallocated hereinabove, is the Company's share of the bond principal which was due and payable on the 1st of July 2003, 2004, respectively.

(5) On April 14, 2005, the Company's Board of Directors approved a reverse split using one of three potential ratios: 1-for-1500, 1-for-2500 or 1-for-5000 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 whereby Color Imaging would voluntarily terminate the registration of its Common Stock under the Securities Exchange Act of 1934. On May 2, 2005, the Special Committee of the Board of Directors of the Company obtained a fairness opinion, confirming the approved \$1.10 price per pre-split share as the price to be paid for the fractional shares cashed out in the going private transaction. On September 19, 2005, the stockholders of Color Imaging approved the reverse split proposal to effect the going private transaction and the Board of Directors approved the reverse split ratio of 1 for 2500 and authorized and directed management to complete the going private transaction. Effective upon the opening of business on September 22, 2005, the amendments to the Company's certificate of incorporation to effect the reverse split of 1 for 2500 followed by a forward split of 2500 for 1 was filed, and the Company repurchased and retired, as of October 7, 2005, 975,877 of its common shares at the pre-split price of \$1.10 for \$1,073,465 with the remainder of the expenditures being costs incurred in connection with the transaction. As of the effective date, the Company had 73 stockholders of record, and on September 28, 2005, filed Form 15 to deregister with the SEC, becoming a non-reporting company.

(6) From July 2003 through December 31, 2004, 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. The Company halted the repurchase of its common stock under the repurchase program in December 2004, when it became apparent that a going private or other transaction was likely. The repurchase program expired on September 30, 2005, without being extended by the Company's board of directors.

Contractual Obligations and Commercial Commitments

Our minimum payment obligations relating to long-term debt and other contractual obligations are as follows:

CONTRACTUAL OBLIGATIONS (IN THOUSANDS)	LESS THAN YEAR	1 - 3 YEARS	4 - 5 YEARS	AFTER 5 YEARS	TOTAL
IDR bonds	\$ 145	\$ 760	\$ 180	\$ 990	\$ 2,075
Long-term debt	34	172	86		292
Operating leases, automobile	13				13
Unconditional purchase obligations(1)	1,800				1,800
Facility lease, related party	572	1,804	1,942	172	4,490
Facility lease, other	2				2
Severance obligations under Employment agreements (2)	37				37
Total	\$2,603	\$2,736	\$2,208	\$1,162	\$ 8,709

(1) Unconditional commitments, open purchase orders, to purchase raw materials, plastic cartridges and bottles, parts and other products for use in manufacturing and finished products for resale in the ordinary course of business with future delivery dates. Due to minimum order quantities and long lead times for many of these products, we have made purchase commitments that may be in excess of future production requirements, and it could take several months to use all of these product commitments in the manufacture of our products. These purchase commitments are not expected to result in any significant losses, though those in connection with older analog copier products have a higher risk of obsolescence than those used in the manufacture of our other products.

(2) Employment agreement between Color Imaging and one executive officers that provide for severance payments of the lesser of three months of salary and benefits or the remainder of the term of the agreement, expiring from March 31, 2006.

OTHER COMMERCIAL COMMITMENTS (IN THOUSANDS)	LESS THAN 1 YEAR	1 - 3 YEARS	4 - 5 YEARS	AFTER 5 YEARS	TOTAL
Lines of credit (1)	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Standby letters of credit (2)	0	0	0	0	0
Total	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0

(1) Color Imaging has a \$3.0 million revolving line of credit with its bank that expires June 30, 2007. As of December 31, 2005, there was no outstanding principal balance.

(2) On January 28, 2004, Color Imaging applied for a \$1.5 million irrevocable standby letter of credit with an expiration date of June 30, 2005, to secure its payments to a vendor for the importation of toner related products. As of December 31, 2005, as amended, the letter of credit is issued and outstanding in the reduced amount of \$500,000 and expires June 30, 2006.

OFF BALANCE SHEET ARRANGEMENTS

As a condition of the Share Exchange Agreement, as amended, of September 2002, between Logical Imaging Solutions, Inc., Digital Color Print, Inc. and Color Imaging, Logical Imaging Solutions and Digital Color Print assumed the responsibility for an operating lease for equipment used by Logical Imaging Solutions upon which Color Imaging is a co-obligor. The aggregate payment obligations remaining as of September 2002 were less than \$50,000, and as a condition of the Share Exchange Agreement Logical Imaging Solutions and Digital Color Print pledged 50,000 shares of the common stock of Color Imaging to secure their performance of all of the terms and conditions of the lease. During 2005 this obligation was satisfied.

On June 1, 2003, Color Imaging entered into a Marketing and Licensing Agreement (refer to Exhibit 10.14 filed with Form 10-Q for the quarter ended September 30, 2003), as amended and restated on November 15, 2004, effective as of April 1, 2004, with its affiliate General Plastic Industrial Co Ltd. Per the Marketing and Licensing Agreement General Plastic Industrial Co Ltd agrees to indemnify and hold harmless Color Imaging for any costs and expense arising from any defective licensed product, and/or any recalled licensed product including litigation arising therefrom. Further General Plastic Industrial Co Ltd agrees to credit Color Imaging for product cost, shipping and related expenses arising from any defective licensed product, and/or any recalled licensed product.

On February 6, 2004, our Bank issued on our behalf an irrevocable standby letter of credit in the amount of \$1.5 million for the benefit of a non-affiliated foreign supplier. As amended, as of December 31, 2005, the standby letter of credit is issued and outstanding in the reduced amount of \$500,000 and expires June 30, 2006, and guarantees the payment of moneys owed the supplier for materials purchased from them by the Company on terms from net 30 to net 120. At December 31, 2005, the Company's accounts payable to this supplier was \$300,368, while our open purchase order commitments were \$321,394. 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.

Valuation and Qualifying Accounts

Valuation and qualifying accounts is set forth below.

	FOR THE YEARS ENDED DECEMBER 31, 2005, 2004 and 2003				
	For the Year Ended December 31,	Balance at Beginning of Year	Charged (credited) to Expense	Write-offs	Balance at End of Year
1. ALLOWANCE FOR DOUBTFUL ACCOUNTS	2005	\$ 93,201	\$ (12,238)	\$ 33,685	\$ 47,278
	2004	67,839	35,000	9,638	93,201
	2003	64,178	45,000	41,339	67,839
2. RESERVE FOR OBSOLETE INVENTORY	2005	\$ 81,617	\$ 515,000	\$ 547,824	\$ 48,793
	2004	98,089	280,000	296,472	81,617
	2003	34,964	275,000	211,875	98,089
3. DEFERRED TAX VALUATION ALLOWANCE	2005	\$ 602,450	\$ 194,700	\$ --	\$ 797,150
	2004	334,800	267,650	--	602,450
	2003	--	334,800	--	334,800

All other schedules are omitted because they are not applicable or the required information is shown in the consolidated financial statements or notes thereto.

CERTAIN IMPORTANT FACTORS

There are several important factors that could cause our actual results to differ materially from those we anticipate or those reflected in any of our forward-looking statements. These factors, and their impact on the success of our operations and our ability to achieve our goals, include, but are not limited to, those set forth below.

Risks Related to Our Business:

Our Business Depends On A Limited Number Of Customers.

For the twelve months ended December 31, 2005, one customer accounted for approximately 11.2% of our net sales, down from 29% 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 December 31, 2005, no customer's receivables comprised 10% or more of our accounts receivable. Typically 80% or more of our sales are derived from 100 or fewer customers, and 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 12% 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 12% of our sales for the twelve months ended December 31, 2005 were derived from products limited to a specific foreign supplier. For the twelve months ended December 31, 2005, we purchased 15% 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 \$500,000 and expiring on June 30, 2006. 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:

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

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

Our Success Is Dependent On Our Ability To Utilize Available Manufacturing Capacity.

From 1999 through 2000, we expanded our manufacturing capacity by acquiring new manufacturing equipment and moving to a larger location. 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 54% of net sales in the twelve months ended December 31, 2005. We expect that shipments to international customers will continue to account for a material portion of net sales. During the twelve month period ended December 31, 2005, our sales were made to customers outside the United States as follows:

- o Europe (including Eastern Europe) - 39%
- o Mexico - 4%
- o Asia/Southeast Asia - 4%
- o Other - 6%

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 \$5,661, \$154,583 and \$149,110 during the twelve month periods ended December 31, 2005, 2004 and 2003, respectively, as a result of foreign currency transactions.

While our business has not been materially affected in the past by foreign business or currency fluctuations, because of our 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:

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

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

We Depend On The Efforts And Abilities of Certain Senior Management And Other Key Personnel To Continue Our Operations And Generate Revenues.

Our success depends to a significant extent on the continued services of senior management and other key personnel. While we do have 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 transaction 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 Internal Controls 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.

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, 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 internal controls 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. 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. 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, Directors and an Affiliate Beneficially Own Approximately 69% of the Outstanding Shares of 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 to Purchase Our Common Stock Will Dilute Existing Stockholders and Could Decrease the Market Price of Our Common Stock.

As of December 31, 2005, we had issued and outstanding 11,729,428 shares of common stock and options to purchase an additional 1,157,500 shares of common stock, respectively. The existence of the remaining options may adversely affect the market price of our common stock and the terms under which we obtain additional equity capital.

As a result of our going private transaction, our common stock is not eligible to be listed on any exchange or quoted on the NASDAQ National Market. Therefore, a public market in our common stock may not be sustained which may make it difficult for stockholders to sell shares of our common stock at or near ask prices or at all.

After we terminated our registration with the SEC in September 2005, our common stock became ineligible to be quoted on the OTC Bulletin Board. This change may cause the liquidity of our common stock to be 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. Our common stock is currently quoted on the Pink Sheets by eligible market makers in our common stock. Because there is no established public trading market for our common stock, it may be difficult for stockholders to either dispose of or obtain quotations as to the price of our common stock. In addition, we have no control over how actively market makers quote our common stock on the Pink Sheets, and we cannot assure investors that they will be able to liquidate their investment in us without considerable delay, if at all. Prices for shares of our common stock may be lower than might otherwise prevail if our common stock was traded on the NASDAQ or a national securities exchange, like the American Stock Exchange. We cannot assure stockholders that a broader or more active public trading market for our common stock will develop or be maintained, or that current trading levels on the Pink Sheets will be maintained. Failure to develop or maintain an active trading market could negatively affect the price of our common stock. We currently have no plans to attempt to have our common stock listed on an exchange or on the NASDAQ National Market or NASDAQ SmallCap Market.

Our Stock Price May be Volatile and an Investment in Our Common Stock Could Suffer a Decline in Value.

The market price of our common stock may fluctuate significantly in response to a number of factors, some of which are beyond our control. These factors include:

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

Our Charter Documents and Delaware Law May Have the Effect of Making it More Expensive or More Difficult for a Third Party to Acquire, or to Acquire Control of, Us.

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

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

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

TO THE BOARD OF DIRECTORS AND STOCKHOLDERS OF COLOR IMAGING, INC.
NORCROSS, GEORGIA

We have audited the accompanying balance sheets of Color Imaging, Inc. (a Delaware corporation) as of December 31, 2005 and 2004, and the related statements of operations, stockholders' equity and cash flows for each of the three years in the period ended December 31, 2005. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Color Imaging, Inc. as of December 31, 2005 and 2004, and the results of their operations and their cash flows for the three years in the period ended December 31, 2005, in conformity with accounting principles generally accepted in the United States of America.

LAZAR LEVINE & FELIX LLP

New York, New York
January 27, 2006

COLOR IMAGING, INC.
BALANCE SHEETS
DECEMBER 31, 2005 AND 2004

	2005	2004
- ASSETS -		
CURRENT ASSETS:		
Cash	\$ 732,252	\$ 2,044,989
Accounts receivable - net of allowance for doubtful accounts of \$47,278 and \$93,201 for 2005 and 2004, respectively	2,529,978	2,412,354
Inventories	5,680,592	4,854,939
Related party portion of IDR bond - current	--	92,664
Other current assets	115,173	106,618
	9,057,995	9,511,564
TOTAL CURRENT ASSETS		
PROPERTY, PLANT AND EQUIPMENT - NET	6,809,099	6,601,832
OTHER ASSETS:		
Related party portion of IDR bond	--	554,764
Other assets	11,889	27,864
	11,889	582,628
	\$ 15,878,983	\$ 16,696,024
- LIABILITIES & STOCKHOLDERS' EQUITY -		
CURRENT LIABILITIES:		
Revolving credit lines	\$ --	\$ --
Accounts payable	1,707,306	1,625,282
Current portion of notes payable	34,138	6,071
Current portion of notes payable - related parties	--	67,816
Current portion of bonds payable	145,000	390,000
Other current liabilities	26,839	7,500
	1,913,283	2,096,669
TOTAL CURRENT LIABILITIES		
LONG TERM LIABILITIES:		
Notes payable	258,300	5,438
Bonds payable	1,930,000	2,335,000
Deferred tax liability	797,150	602,450
	2,985,450	2,942,888
TOTAL LONG TERM LIABILITIES		
TOTAL LIABILITIES	4,898,733	5,039,557
COMMITMENTS & CONTINGENCIES		
STOCKHOLDERS' EQUITY:		
Common stock, \$.01 par value, authorized 30,000,000 shares; 11,729,428 and 12,690,305 shares issued and outstanding on December 31, 2005 and 2004, respectively	117,294	126,903
Additional paid-in capital	11,421,460	12,681,472
Accumulated deficit	(558,504)	(1,151,908)
	11,980,250	11,656,467
	\$ 15,878,983	\$ 16,696,024
	=====	=====

See notes to financial statements.

COLOR IMAGING, INC.
STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED DECEMBER 31, 2005, 2004 AND 2003

	Year Ended December 31,		
	2005	2004	2003
SALES	\$ 21,948,155	\$ 21,834,829	\$ 21,057,601
COST OF SALES	15,320,414	16,283,031	15,789,078
GROSS PROFIT	6,627,741	5,551,798	5,268,523
OPERATING EXPENSES:			
Administrative	1,499,882	1,373,694	1,679,576
Research and development	1,454,895	1,171,502	1,176,085
Sales and marketing	2,847,005	2,370,767	1,745,812
	5,801,782	4,915,963	4,601,473
INCOME FROM OPERATIONS	825,959	635,835	667,050
OTHER INCOME (EXPENSE):			
Interest and other income	103,645	229,588	219,059
Interest and financing costs	(111,134)	(90,160)	(164,438)
	(7,489)	139,428	54,621
INCOME BEFORE PROVISION FOR INCOME TAXES	818,470	775,263	721,671
PROVISION FOR INCOME TAXES	225,066	311,000	288,700
NET INCOME	\$ 593,404	\$ 464,263	\$ 432,971
INCOME PER COMMON SHARE:			
Basic	\$.05	\$.04	\$.04
Diluted	\$.05	\$.04	\$.04
Weighted average shares outstanding:			
Basic	12,429,109	12,703,575	11,966,981
Diluted	12,529,266	12,710,306	11,979,554

See notes to financial statements.

**COLOR IMAGING, INC. AND SUBSIDIARY
STATEMENT OF STOCKHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2005, 2004 AND 2003**

	SHARES	COMMON STOCK	ADDITIONAL PAID-IN CAPITAL	ACCUMULATED DEFICIT	TOTAL STOCKHOLDERS' EQUITY
	-----	-----	-----	-----	-----
Balance at December 31, 2002	8,437,965	\$ 84,380	\$ 7,205,909	\$(2,049,142)	\$ 5,241,147
Sale of common stock	4,500,000	45,000	5,855,584	--	5,900,584
Common stock and warrants repurchased and retired	(207,460)	(2,075)	(353,125)	--	(355,200)
Net income for the year	--	--	--	432,971	432,971
	-----	-----	-----	-----	-----
Balance at December 31, 2003	12,730,505	127,305	12,708,368	(1,616,171)	11,219,502
Common stock, repurchased and retired	(40,200)	(402)	(26,896)	--	(27,298)
Net income for the year	--	--	--	464,263	464,263
	-----	-----	-----	-----	-----
Balance at December 31, 2004	12,690,305	126,903	12,681,472	(1,151,908)	11,656,467
Stock options exercised	15,000	150	7,950	--	8,100
Reverse stock split 1 for 2500					
Common stock, repurchased and retired	(975,877)	(9,759)	(1,267,962)	--	(1,277,721)
Forward stock split 2500 for 1					
Net income for the year	--	--	--	593,404	593,404
	-----	-----	-----	-----	-----
Balance at December 31, 2005	11,729,428	\$ 117,294	\$11,421,460	\$(558,504)	\$10,980,250
	=====	=====	=====	=====	=====

See notes to financial statements.

COLOR IMAGING, INC.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2005, 2004 AND 2003

	YEAR ENDED DECEMBER 31,		
	2005	2004	2003
CASH FLOW FROM OPERATING ACTIVITIES:			
Income from operations	\$ 593,404	\$ 464,263	\$ 432,971
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	627,763	593,801	537,369
Disposal of fixed assets	255,889	--	--
Deferred income taxes	194,700	309,750	292,700
Allowance for doubtful accounts	(45,923)	45,000	3,661
(Increase) decrease in:			
Accounts receivable	(71,701)	(515,950)	444,955
Inventory	(626,764)	769,389	(544,091)
Prepaid expenses and other assets	7,420	272,217	251,468
Due from related party - IDR bond	647,428	87,912	83,160
Increase (decrease) in:			
Accounts payable and accrued liabilities	(97,527)	(1,174,492)	(1,244,188)
NET CASH PROVIDED BY OPERATING ACTIVITIES	1,484,689	851,890	258,005
CASH FLOWS FROM INVESTING ACTIVITIES:			
Capital expenditures	(1,090,919)	(221,799)	(473,093)
NET CASH (USED IN) INVESTING ACTIVITIES:	(1,090,919)	(221,799)	(473,093)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Net (payments) under line of credit	--	--	(1,022,470)
Proceeds from long-term debt	287,000	--	--
Principal payments of long-term debt	(6,070)	(5,612)	(1,336,335)
Principal payments of IDR bond	(650,000)	(370,000)	(350,000)
Principal repayments to related party	(67,816)	(396,022)	(536,162)
Proceeds from sale of common stock	8,100	--	5,900,584
Payments for the repurchase of common stock and warrants	(1,277,721)	(27,298)	(355,200)
NET CASH (USED IN) PROVIDED BY FINANCING ACTIVITIES	(1,706,507)	(798,932)	2,300,417
NET INCREASE (DECREASE) IN CASH	(1,312,737)	(168,841)	2,085,329
Cash at beginning of year	2,044,989	2,213,830	128,501
CASH AT END OF YEAR	\$ 732,252	\$ 2,044,989	\$ 2,213,830
SUPPLEMENTAL CASH FLOW INFORMATION:			
Cash paid during the year for:			
Interest	\$ 96,955	\$ 78,547	\$ 147,694
Income taxes	25,230	--	--

See notes to financial statements.

COLOR IMAGING, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2005, 2004 AND 2003

NOTE 1. DESCRIPTION OF COMPANY:

Color Imaging, Inc., (Color or the Company) develops, manufactures and markets products used in electronic photocopying and printing. Color designs, manufactures and delivers full color, black text and specialty toners, including MICR (magnetic characters used on checks and other financial documents), utilizing both conventionally and chemically produced particles. Color also supplies imaging drums used in electronic printing and photocopying.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

(A) ESTIMATES AND ASSUMPTIONS:

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in Color's financial statements and accompanying notes. Management bases its estimates on certain assumptions, which they believe are reasonable in the circumstances, and does not believe that any change in those assumptions would have a significant effect on the financial position or results of operations. Actual results could differ from those estimates.

(B) FAIR VALUE FINANCIAL INSTRUMENTS:

The carrying amount of cash and cash equivalents, trade receivables and payables approximates fair value because of the short maturity of those instruments. The carrying value of the Company's debt is considered to approximate the fair value of these instruments based on the borrowing rates currently available to the Company for loans with similar terms and maturities.

(C) CONCENTRATION OF CREDIT RISK:

Financial instruments, which potentially subject the Company to concentrations of credit risk, are cash equivalents, marketable securities and accounts receivable. The Company attempts to limit its credit risk associated with cash equivalents and marketable securities and at December 31, 2005 its investments were in cash held in highly rated financial institutions. With respect to accounts receivable, the Company limits its credit risk by performing ongoing credit evaluations and, when deemed necessary, requiring cash in advance, payment by credit card, letters of credit, credit insurance or guarantees. The Company's customer base is comprised principally of domestic dealers and distributors of copier supplies and re-manufacturers of laser printing consumable products. The Company's international customers are comprised principally of distributors, on many of which the Company has obtained credit insurance. Management does not believe significant risk exists in connection with the Company's concentrations of credit at December 31, 2005.

(D) CASH AND CASH EQUIVALENTS:

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

(E) ACCOUNTS RECEIVABLE:

The Company provides an allowance for doubtful accounts equal to the estimated uncollectible amounts. The Company's estimate is based on historical collection experience and a review of the current status of trade accounts receivable. It is reasonably possible that the Company's estimate of the allowance for doubtful accounts will change. Accounts receivable are presented net of an allowance for doubtful accounts of \$47,278 and \$93,201 at December 31, 2005 and 2004, respectively.

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

(F) INVENTORIES:

Inventories are stated at the lower of cost or market with cost determined by the first-in, first-out (FIFO) method for raw materials, work-in-process and finished goods. Consideration is given to deterioration, obsolescence and other factors in evaluating the estimated market value of inventory based upon management's judgment and available information. Costs in inventory include materials, direct labor, and applied manufacturing overhead.

(G) PROPERTY, PLANT AND EQUIPMENT:

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

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

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

(H) STOCK-BASED COMPENSATION:

The Company applies the intrinsic-value based method of accounting prescribed by Accounting Principles Board (APB) No. 25, "Accounting for Stock Issued to Employees", and related interpretations, in accounting for its stock-based compensation plans and accordingly, no compensation cost has been recognized for its stock options in the financial statements. The Company has elected not to implement the fair value based accounting method for employee stock options under SFAS No. 123, "Accounting for Stock-Based Compensation", but has elected to disclose the pro forma net income (loss) per share for employee stock option grants made beginning in fiscal 1997 as if such method had been used to account for stock-based compensation costs described in SFAS No. 148 "Accounting for Stock Based Compensation-Transition and Disclosure", an amendment of SFAS No. 123.

The Company has determined pro forma net earnings and net earnings per share information as if the fair value method described in SFAS No. 123, "Accounting for Stock-Based Compensation," had been applied to its employee stock-based compensation. The fair value of stock options was estimated on the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions for the years ended December 31, 2005, 2004 and 2003:

	2005	2004	2003
Risk-free interest rate	4.32%	3.00%	2.68%
Dividend yield	0.00%	0.00%	0.00%
Expected market price volatility	169%	226%	242%
Weighted-average expected life of option	3 years	3 years	3 years

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):**(H) STOCK-BASED COMPENSATION (CONTINUED):**

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

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:

	2005	2004	2003
	-----	-----	-----
Net income, as reported	\$ 593,404	\$ 464,263	\$ 432,971
Less: Pro forma stock based compensation expense - net of tax	92,773	94,756	80,908
Pro forma net income	----- \$ 500,631 =====	----- \$ 369,507 =====	----- \$ 352,063 =====
Basic Earnings per share:			
As reported	\$.05	\$.04	\$.04
Pro forma	.04	.03	.03
Diluted Earnings per share:			
As reported	\$.05	\$.04	\$.04
Pro forma	.04	.03	.03

For purposes of pro forma disclosures, the estimated fair value of the options is amortized over the average vesting period of the options.

(I) INCOME TAXES:

The asset and liability method is used in accounting for income taxes. Under this method, deferred tax assets and liabilities are recognized for operating loss and tax credit carry forwards and for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in the results of operations in the period that includes the enactment date. A valuation allowance is recorded to reduce the carrying amounts of deferred tax assets unless it is more likely than not that such asset will be realized.

(J) REVENUE RECOGNITION:

The Company recognizes revenues in accordance with Staff Accounting Bulletin 104, Revenue Recognition in Financial Statements (SAB104).

The Company designs, manufactures and acquires from third parties and sells toner and imaging drums used in electronic photocopying and printing. Revenue from such product sales is recognized when persuasive evidence of an arrangement exists, delivery has occurred, the fee is fixed or determinable and collectibility is probable. At this time the earnings process is complete and the risks and rewards of ownership have transferred to the customer, which is generally when the goods are shipped and all significant obligations of the Company have been satisfied.

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

(K) ADVERTISING COSTS:

In accordance with SOP No. 93-7, Reporting on Advertising Costs, the Company expenses all advertising expenditures as incurred. The Company incurred \$171,510, \$158,253 and \$146,255 in advertising costs during 2005, 2004 and 2003, respectively.

(L) RESEARCH AND DEVELOPMENT EXPENSES:

Research and development costs are charged to expense when incurred and aggregated \$1,454,895, \$1,171,502 and \$1,176,085 for 2005, 2004 and 2003, respectively, from continuing operations.

(M) EARNINGS PER COMMON SHARE:

Earnings per common share are calculated under the provisions of SFAS No. 128, "Earnings per Share". SFAS No. 128 requires the Company to report both basic earnings per share, which is based on the weighted-average number of common shares outstanding, and diluted earnings per share, which is based on the weighted-average number of common shares outstanding plus all potential dilutive common shares outstanding.

(N) SHIPPING AND HANDLING COSTS:

Shipping and handling costs of \$135,320, \$122,566 and \$107,423 in 2005, 2004 and 2003, respectively, are included in sales and marketing expense.

(O) FOREIGN CURRENCY TRANSACTIONS:

During 2001, the Company began selling its products in certain overseas markets where the prices were denominated in Euros. All balance sheet accounts resulting from foreign transactions are translated into U.S. dollars at the rate of exchange in effect at the balance sheet date and statements of operations items are translated at the weighted average exchange rates for the year. The resulting translation adjustments, when applicable, are made directly to a separate component of stockholders' equity. Gains and losses from foreign currency transactions, such as those resulting from the settlement of foreign receivables (or payables) are included in the consolidated statements of operations. As of December 31, 2005, there were no material balance sheet items resulting from foreign currency transactions. Aggregated gains of \$5,661, \$154,583 and \$149,110 from the settlement of foreign receivables were recognized for the 2005, 2004 and 2003 years, respectively, and are included in other expense on the statements of operations.

(P) RECENT ACCOUNTING PRONOUNCEMENTS AFFECTING THE COMPANY:

In May 2005, the FASB issued SFAS No. 154, "Accounting Changes and Error Corrections" ("SFAS No. 154"). SFAS No. 154 is a replacement of Accounting Principles Board Opinion No. 20 and SFAS No. 3. SFAS No. 154 provides guidance on the accounting for and reporting of accounting changes and error corrections. It establishes retrospective application as the required method for reporting a change in accounting principle. SFAS No. 154 provides guidance for determining whether retrospective application of a change in accounting principle is impracticable and for reporting a change when retrospective application is impracticable. SFAS No. 154 also addresses the reporting of a correction of an error by restating previously issued financial statements. SFAS No. 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. We will be adopting this pronouncement beginning in our fiscal year 2006 and do not currently believe that it will have a material impact on our financial statements.

NOTE 3. INVENTORIES:

Inventories for continuing operations consisted of the following components as of December 31, 2005 and 2004:

	2005	2004
Raw materials	\$ 1,548,601	\$ 945,311
Work-in-process	1,776,866	1,464,875
Finished goods	2,403,918	2,526,370
Obsolescence allowance	(48,793)	(81,617)
	-----	-----
Total	\$ 5,680,592	\$ 4,854,939
	=====	=====

NOTE 4. PROPERTY AND EQUIPMENT:

Property and equipment of continuing operations consisted of the following as of December 31, 2005 and 2004:

	2005	2004
Furniture and fixtures	\$ 183,072	\$ 120,080
Test and computer equipment	865,221	1,003,925
Manufacturing machinery and equipment	7,218,775	6,727,889
Leasehold improvements	1,400,076	1,364,608
	-----	-----
	9,667,144	9,216,502
Less: accumulated depreciation and amortization	(2,858,045)	(2,614,670)
	-----	-----
	\$ 6,809,099	\$ 6,601,832
	=====	=====

Depreciation and amortization expense amounted to \$627,763, \$593,801 and \$537,369 in 2005, 2004 and 2003, respectively. In 2005, the Company revised its threshold for capitalizing property and equipment, from \$1,000 to \$5,000. The Company, as a result, expensed existing capitalized items with an original cost of below \$5,000. This change in policy resulted in a charge to the following categories in statement of operations for 2005: (i) cost of sales \$91,069, (ii) administrative \$18,288 and (iii) research and development \$93,937, for an aggregate charge of \$203,294.

NOTE 5. 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 whom 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 2005, 2004 and 2003 were \$558,348, \$544,728 and \$531,444, respectively.

Minimum annual lease commitments are as follows:

2006	\$ 572,305
2007	586,612
2008	601,278
2009	616,310
2010	631,717
Thereafter	1,481,282

Total minimum lease payments	\$ 4,489,504
	=====

NOTE 5. RELATED-PARTY TRANSACTIONS (CONTINUED):

(B) PURCHASES:

The Company purchases copier and laser printer products from an entity in which three directors have a beneficial ownership interest. Purchases for the 2005, 2004 and 2003 years aggregated \$4,193,615, \$4,028,303 and \$2,091,785, respectively. See also Note 13.

(C) 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 is 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, decreased the interest rate to 6% per annum, provided for interest only payments through February 28, 2003, and 24 monthly payments of principal and interest beginning on April 1, 2003, in the amount of \$17,736. The Company borrowed the \$500,000 to meet a supplier commitment for product. Interest paid to Sueling Wang on the note for the years ended December 31, 2005, 2004 and 2003 was \$149, \$3,607 and \$14,641, respectively. As of December 31, 2005 and 2004, the principal outstanding was \$0 and \$15,000, respectively.

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, matures on March 1, 2005 and is evidenced in writing. The Company borrowed this amount in order to repay \$100,000 borrowed from director Sueling Wang on March 14, 2002. The note is interest only through February 28, 2003, and then is fully amortizing over 24 months with principal and interest payments payable monthly beginning April 1, 2003 in the amount of \$4,434. As of December 31, 2005, 2004 and 2003, the interest accrued and paid on the note was \$65, \$2,203 and \$5,115, respectively. As of December 31, 2005 and 2004, the outstanding principal balance on the note was \$0 and \$8,803, respectively.

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, matures on March 1, 2005 and is 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. As of December 31, 2005, 2004 and 2003, interest accrued and paid on the note was \$326, \$11,017 and \$25,577, respectively. As of December 31, 2005 and 2004, the principal outstanding was \$0 and \$44,013, respectively.

(D) COMMON STOCK

On March 6, 2003, the Company received from Chi Fu Investment Co Ltd \$6,075,000 of gross 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 December 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. ("GPI").

(E) MARKETING AND LICENSE AGREEMENT

On June 1, 2003, the Company entered into a Marketing and Licensing Agreement with a foreign affiliate, GPI. 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, and granted the Company the exclusive right to market the licensed product in the United States with exception of GPI retaining the right to sell to a few of its existing customers. 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. Effective July 31, 2005, the Marketing and License Agreement was amended to be non-exclusive, and the Company agreed to discontinue marketing the licensed product for sale to retail chain stores. Royalty payments for the three years end December 31, 2005, 2004 and 2003 were \$63,117, \$86,073 and \$0, respectively.

NOTE 6. BORROWING ARRANGEMENTS:

The Company has a \$3 million revolving line of credit, as amended on September 19 and October 26, 2005, under which \$2,438,259 is available for borrowings for working capital and or the issuance of letters of credit. As of December 31, 2005, the outstanding borrowing balance and issued and outstanding letters of credit were \$0 and \$500,000, respectively, bearing interest at the one-month Libor interest rate in effect two business days before the first day of the month plus 1.85%. As of December 31, 2005, the interest rate was the one-month Libor rate of 4.38% plus 1.85% (6.23%). This revolving line of credit has a June 30, 2007 expiration date.

Under the line of credit, the Company is permitted to borrow up to 75% of eligible accounts receivable, with foreign receivables limited to one third of the total accounts receivable availability, and 50% of eligible inventories (up to a maximum of \$1,500,000 and not to exceed 50% of the total outstanding). Letters of credit may be issued under the revolving line of credit, reducing the availability for borrowings, of \$1,000,000 and \$500,000 for standby and import letters of credit to facilitate the purchase of inventory from non-affiliated suppliers. As of December 31, 2005, the Bank has issued an irrevocable standby letter of credit, as amended, in the amount of \$500,000 for the benefit of a non-affiliated foreign supplier. The standby letter of credit has an expiration date of June 30, 2006.

The Company has equipment lines of credit aggregating \$1,000,000, consisting of \$500,000 for equipment acquired for each of years ended June 30, 2006 and 2007. Under the equipment line of credit the Company can borrow up to 80% of the cost of the acquisition of eligible capital equipment, excluding soft costs and installation, or for the payment of principal amounts due in 2006 and 2007 on the industrial development bond. Under the equipment lines of credit approved by the Bank, amounts advanced would be payable interest only during the fiscal year in which advanced at the one-month Libor rate plus 1.85% and then be converted to a term loan with level principal payments over five years, maturing June 30, 2011 and 2012. The Company has granted the Bank a security interest in all of the Company's assets as security for the repayment of the obligations to the Bank. The Bank agreement also contains various covenants that the Company is required to maintain, and as of December 31, 2005, the Company was in compliance with these covenants.

Long-term debt, bank debt and that for the acquisition of a forklift, was comprised of the following as of December 31,

	2005	2004
	-----	-----
Notes maturing in:		
Equipment loan	\$ 5,438	\$ 11,509
Bank term loan	287,000	--
	-----	-----
	292,438	11,509
Less current maturities	34,138	6,071
	-----	-----
	\$ 258,300	\$ 5,438
	=====	=====

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

2006	\$ 34,138
2007	57,400
2008	57,400
2009	57,400
2010	57,400
Thereafter	28,700

Total	\$ 292,438
	=====

NOTE 7. INDUSTRIAL DEVELOPMENT REVENUE BOND:

On June 1, 1999, the Development Authority of Gwinnett County (the Authority) issued \$4,100,000 of industrial development revenue bonds on behalf of the Company and a Related Party. The 3.07%, inclusive of the 1% letter of credit fee annually, revenue bonds as of December 31, 2005, are payable in varying annual principal and monthly interest payments through July 2019. The bond is secured by all the assets of the Company and by real property owned by the Related Party. The bonds along with the line of credit and term loan (see Note 6) are held by two related financial institutions.

A loan agreement between the Authority and the Company and a Related Party allows funds to effectively pass through the Authority to the Company. The majority of the proceeds, \$3,125,872, were used by the Company to purchase and install certain manufacturing equipment, while \$974,128 was used by the Related Party to pay down the mortgage on the real property leased to the Company (see Note 5(A)). The Company and the Related Party are jointly obligated to repay any outstanding debt. Under the Joint Debtor Agreement of June 28, 2000, between the Company and the Related Party, each has agreed to be responsible to the other for their share of the bond obligations and that any party causing an act of default shall be responsible for 100% of the bond obligations. The amount for which the Related Party is responsible to the Company is reflected in current and other assets of the Company. The Related Party amounts owed to the Authority are secured by a lien on the real property leased by the Company and by personal guarantees executed by members of the Related Party. On March 8, 2005, the Related Party prepaid its obligation under the bonds in full, and on September 19, 2005, the Related Party and its collateral was released from the bond obligations. As of December 31, 2005, the bond principal outstanding was \$2,075,000 and the portion due from the Related Party was \$0.

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

2006	\$ 145,000
2007	595,000
2008	80,000
2009	85,000
2010	90,000
Thereafter	1,080,000

Total	\$ 2,075,000
	=====

NOTE 8. STOCKHOLDERS EQUITY:

(A) COMMON STOCK AND STOCK WARRANTS:

On February 27, 2003, the Company entered into an agreement with a stockholder to repurchase 150,000 shares of common stock and warrants to purchase 300,000 shares of the Company's common stock for an aggregate cost of \$300,000. The shares and warrants were to be repurchased in approximately equal installments over nine months, beginning in March and ending in November 2003. From March 24, 2003 through November 30, 2003, the Company repurchased 150,000 of the Company's common shares and warrants to purchase 300,000 common shares, paying \$300,000. As of December 31, 2003, all shares and warrants repurchased under this agreement were cancelled.

On March 4, 2003, the Company completed the repurchase from a stockholder of 12,939 shares of the Company's common stock together with warrants to purchase 25,878 shares of the Company's common stock at an aggregate cost of \$25,878. As of December 31, 2003, all shares and warrants repurchased under this agreement were cancelled.

On March 13, 2003, the Company completed the public sale of 4,500,000 shares of the Company's common stock at a price of \$1.35 per share (see Note 5(D)), whereby the Company received \$5,900,584 in net proceeds.

On April 18, 2003, the Company established a stock repurchase program under which the Company'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 September 30, 2005. The Company did not repurchase any of the Company's common stock under the stock repurchase program during 2005, and as of December 31, 2004 and 2003, the Company had repurchased, cancelled and retired 44,500 and 40,200 shares of its common stock at a cost of \$28,835 and \$27,298 and at an average price of \$0.65 and \$0.68 per share, respectively.

NOTE 8. STOCKHOLDERS EQUITY (CONTINUED):

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

On July 10, 2005, a warrant to purchase up to 100,000 shares of the common stock of the Company granted to professional advisors as part of a 2000 merger transaction expired.

On September 19, 2005, the stockholders and board of directors of the Company approved a going private transaction, which the Company completed on October 7, 2005, repurchasing 975,877 shares of the Company's common stock at \$1.10 per share and incurring \$204,256 of cost in connection therewith.

(B) STOCK OPTIONS:

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

On April 1, 2004 the Company granted options to an officer to purchase 100,000 shares of the Company's common stock at an exercise price of \$.73 per share. Options to purchase 20,000 shares of the Company's common stock vested immediately and the remainder vest at the rate of 20,000 per year beginning on the first anniversary date of the grant and continuing annually thereafter and expire five years from their respective date of vesting. On May 18, 2004, the Company granted 335,000 options to officers, 50,000 options to non-employee directors and 80,000 options to employees at an exercise price of \$0.54. One-half of the options granted vested immediately and the remainder vest equally upon the next two anniversary dates of the grant and expire five years from their respective date of vesting. All stock options were granted at an exercise price equal to the market value of the Company's stock as of the date of grant. During the 2004 year, as the result of an employment terminations, options to purchase 15,000 shares of our common stock granted to an employee lapsed.

In June and August of 2005 two employees each exercised options to acquire 7,500 shares of the Company's common stock at an exercise price of \$0.54. During 2005 as the result of employment terminations, options to acquire 247,500 shares of our common stock lapsed.

A summary of the Company's stock option activity, and related information, follows:

	2005		2004		2003	
	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price
Outstanding at beginning of year	1,420,000	\$1.58	970,000	\$2.08	920,000	\$2.33
Granted	-	-	465,000	.58	150,000	.66
Exercised	(15,000)	.54	-	-	-	-
Terminated	(247,500)	1.96	(15,000)	2.75	(100,000)	2.30
Outstanding at end of year	1,157,500	1.51	1,420,000	1.58	970,000	2.08
Exercisable at end of year	946,250	1.69	1,037,500	\$1.88	706,260	\$2.33
Weighted average fair value of options granted during the year	\$0.00		\$0.58		\$0.53	

NOTE 8. STOCKHOLDERS EQUITY (CONTINUED):**(B) STOCK OPTIONS (CONTINUED):**

The weighted-average remaining contractual life of these options is 3.14 years.

No compensation expense has been recognized, as all options have been granted with an exercise price equal to the fair value of the common stock upon date of grant. No adjustment has been made for the non-transferability of the options or for the risk of forfeiture at the time of issuance. Forfeitures are instead recorded as incurred.

The following is a summary of total outstanding options at December 31, 2005:

Range of Exercise Prices	Options Outstanding			Options Exercisable	
	Number	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Life	Number	Weighted-Average Exercise Price
Options:					
\$0.45-\$0.77	150,000	\$0.66	4.96 years	95,000	\$0.70
\$0.54-\$0.73	437,500	\$0.58	4.39 years	291,250	\$0.57
\$2.00	225,000	\$2.00	1.44 years	225,000	\$2.00
\$2.75	345,000	\$2.75	1.88 years	335,000	\$2.75
Options and warrants	1,157,500	\$1.51	3.35 years	946,250	\$1.69

(C) RETAINED EARNINGS:

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

NOTE 9. PENSION PLANS AND POST RETIREMENT BENEFITS:

The Company has adopted the Color Image, Inc. Profit Sharing Retirement Plan. Under this defined contribution plan, employees with one year or more of service who have worked at least 1,000 hours and have reached age 21 are eligible for participation. Participants may contribute between 1% and 15% of their compensation as basic contributions. The Company will match 50% of the first 3% deferred by any participant. Company contributions vest from 20% in the second year of service to 100% in the sixth year. For the years ended December 31, 2005, 2004 and 2003, the Company incurred expenses of \$23,484 , \$18,437 and \$23,532, respectively.

NOTE 10. INCOME TAXES:

The provision for income taxes is composed of the following:

	2005	2004	2003
Current:			
Federal	\$ --	\$ --	\$ --
State	10,066	--	--
Deferred:			
Federal	190,000	262,000	243,100
State	25,000	49,000	45,600
	\$ 225,066	\$ 311,000	\$ 288,700

NOTE 10. INCOME TAXES (CONTINUED):

The reconciliation of income tax computed at the U.S. federal statutory tax rate to income tax expense attributable to income from continuing operations is:

	2005	2004	2003
	-----	-----	-----
Tax at U.S. statutory rates	34.00%	34.00%	34.00%
State income taxes net of			
Federal tax benefit	4.28	5.11	4.02
Other-net	(10.78)	1.00	1.98
	-----	-----	-----
	27.50%	40.11%	40.00%
	=====	=====	=====

The components of the net deferred income tax asset as of December 31, 2005 and 2004 are as follows:

	2005	2004
	-----	-----
Deferred tax assets:		
Inventory	\$ 20,000	\$ 35,000
Accounts receivable	18,000	40,000
Net operating loss carry-forward	356,750	450,000
	-----	-----
	394,750	525,000
Valuation allowance for deferred tax assets	--	(112,500)
	-----	-----
	394,750	412,500
Deferred tax liabilities:		
Fixed assets	(1,191,900)	(1,014,950)
	-----	-----
Net deferred tax asset (liability)	\$ (797,150)	\$(602,450)
	=====	=====

At December 31, 2005, the Company had net operating loss carry forwards (NOLs) of approximately \$1,000,000 for income tax purposes that expire in years beginning 2020. The Company has not provided for a valuation allowance against the deferred tax asset generated by its NOL's, since management believes that it is more likely than not that this asset will be realized in the near future.

NOTE 11. EMPLOYMENT AGREEMENTS:

On June 28 and August 1, 2005, employment agreements between the Company and its President and Executive Vice President expired without renewal.

On April 1, 2004, the Company hired and entered into a two year employment agreement with the Senior Vice President of Marketing and Sales, providing the employee with an annual salary of \$150,000, the lesser of three months severance or the remainder of the term of the agreement if terminated by the Company without cause and granting the employee options to purchase 100,000 shares of the Company's common stock. The employment agreement expires March 31, 2006.

NOTE 12. SIGNIFICANT CUSTOMERS:

For the 2005 and 2004 years, one unrelated distributor of imaging supplies accounted for 11% and 24% of net sales, respectively. For the 2003 year two unrelated distributors/customers of imaging supplies accounted for 29% and 14% of net sales. The Company does not have a written or oral contract with any of these customers. All sales are made through purchase orders.

NOTE 13. SIGNIFICANT SUPPLIERS:

For the years ended December 31, 2005, 2004 and 2003, the Company purchased 15%, 34% and 43%, respectively, of its raw materials and supplies from one unrelated foreign supplier in connection with the sale of copier products. For the years ended December 31, 2005, 2004 and 2003, the Company purchased 34%, 30% and 16%, respectively, of its copier and laser cartridges from a related supplier in connection with the sale of both copier and printer products. See also Note 5(B).

NOTE 14. QUARTERLY FINANCIAL DATA (UNAUDITED):

The following is a summary of the unaudited quarterly results of operations for the years ended December 31, 2005 and 2004 (in thousands, except per share data).

2005	Quarter			
	First	Second	Third	Fourth
-----	-----	-----	-----	-----
Sales, net	\$ 5,629	\$ 5,967	\$ 5,428	\$ 4,924
Gross profit	1,797	2,034	1,742	1,055
Income from operations	305	722	277	(478)
Net income	221	441	189	(258)
Net income per share:				
Basic	.02	.03	.01	(.02)
Diluted	.02	.03	.01	(.02)
	=====	=====	=====	=====

2004	Quarter			
	First	Second	Third	Fourth
-----	-----	-----	-----	-----
Sales, net	\$ 5,601	\$ 5,669	\$ 5,679	\$ 4,886
Gross profit	1,406	1,526	1,322	1,298
Income from operations	101	287	151	97
Net income	103	198	107	56
Net income per share:				
Basic	.01	.02	.01	.00
Diluted	.01	.02	.01	.00
	=====	=====	=====	=====

NOTE 15. FINANCIAL REPORTING FOR BUSINESS SEGMENTS:

The Company believes that its operations are in a single industry segment involving the development and manufacture of products used in electronic printing. All of the Company's assets are domestic. The sales to unaffiliated customers by geographic region are as follows:

	2005		2004		2003	
United States	\$ 10,157,212	46%	\$ 11,922,183	55%	\$ 12,507,490	59%
Europe/Eastern Europe	8,612,444	39%	5,539,810	25%	4,416,152	21%
Mexico	873,346	4%	2,488,963	11%	2,502,831	12%
Asia/Southeast Asia	978,487	5%	1,026,517	5%	814,387	4%
Other	1,326,666	6%	857,356	4%	816,741	4%
Total	\$ 21,948,155	100%	\$ 21,834,829	100%	21,057,601	100%
	=====	=====	=====	=====	=====	=====

DIRECTORS AND EXECUTIVE OFFICERS OF THE COMPANY

The following table sets forth certain biographical information about our directors and executive officers:

NAME	AGE	BUSINESS EXPERIENCE
Jui-Kung (Elmer) Wang	62	Chairman and Chief Executive Officer since August 2003. Director since September 2001. Chairman of Color Image, Inc. from 1989 until its merger with Color Imaging in June 2000. Co-founder and director of General Plastic Industrial Co., Ltd since 1978. Co-founder and Member of Kings Brothers, LLC since 1998. He has a bachelor's degree in economics, an MBA and PhD degrees in management. He is the brother of Sueling, Jui-Hung and Jui-Chi Wang and the uncle of Yi-Jen Wang.
Sueling Wang, PhD	52	Vice Chairman and President since June 2000. Founder of Color Image, Inc. and its Vice Chairman and President from 1989 until its merger with Color Imaging in June 2000. Co-founder and Managing Member of Kings Brothers, LLC. He has a PhD in Chemical Engineering. He is the brother of Jui-Hung, Jui-Kung and Jui-Chi Wang and the uncle of Yi-Jen Wang.
Morris E. Van Asperen	62	Director since June 2000. Executive Vice President and Chief Financial Officer since August 2000. Corporate Secretary since June 2001. From July 2003 through March 2004 he was also responsible for Marketing and Sales. From 1986 through July 2000 was employed by the National Bank of California, leaving as its Executive Vice President and Credit Administrator. He has a B.S. degree in Mathematics and an MBA degree.
Patrick J. Wilson	63	Senior Vice President Marketing and Sales since April 2003. From April 2000 through March 2003 consulting to the Company. From 1998 until March 2000 was a consultant for the copy, fax, printer marketplace.
Jui-Hung (Jack) Wang	59	Director since June 2001 and Chairman from June 2002 through August 2003. Director of Color Image, Inc. from 1989 until its merger with Color Imaging in June 2000. Co-founder and Chairman of General Plastic Industrial Co., Ltd since 1978. Co-founder and Member of Kings Brothers, LLC since 1998. He is the brother of Jui-Kung, Sueling and Jui-Chi Wang and the father of Yi-Jen Wang.
Jui-Chi (Jerry) Wang	49	Director since June 2000. From 1994 until June 2000, served as a director of Color Image, Inc. until its merger with Color Imaging in June 2000. Since 1984 has served as President of General Plastic Industrial Co Ltd. Co-founder and Member of Kings Brothers, LLC. He has a Master's Degree in Computer Engineering from the University of Southern California. He is the brother of Jui-Hung, Jui-Kung and Sueling Wang and the uncle of Yi-Jen Wang.
Richard S. Eiswirth	36	Director and Audit Committee Chairman since April 2003. Since October 2005 the Chief Financial Officer of Alimera Sciences, Inc. From April 2002 until December 2005 was raising capital for start-ups. From August 1999 to April 2002 was Senior Executive Vice President and Chief Financial Officer of Netzee, Inc. For nine years prior to that he was a certified public accountant and graduated cum laude in 1991 with a Bachelor of Arts degree in accounting.
Y-Jen (Tina) Wang	29	Director since April 2003. Was an Assistant Vice President from February 2003 until her resignation as Human Resources Manager in January 2005. She received a bachelor's degree in June 1998. She is the daughter of Jui-Hung Wang and the niece of Jui-Kung, Sueling and Jui-Chi Wang.