

SECURITIES AND EXCHANGE COMMISSION

FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

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KOLORFUSION INTERNATIONAL INC

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

Form 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended December 31, 2002

OR

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

For the transition period from _____ to _____

Commission File Number 0-28351

KOLORFUSION INTERNATIONAL, INC.
(Exact name of registrant as specified in its charter)

COLORADO

84-1317836

(State or other jurisdiction of (IRS Employer Identification No.)
incorporation or organization)

7347 South Revere Parkway, Centennial, CO 80112

(Address of principal executive offices)

(303) 690-2910

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required
to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during
the preceding 12 months, (or for such shorter period that the registrant was
required to file such reports) and (2) has been subject to such filing
requirements for the past 90 days.

Yes No

21,818,144 Common Shares were outstanding as of February 15, 2003

KOLORFUSION INTERNATIONAL, INC.

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Part I. FINANCIAL INFORMATION

Item I. FINANCIAL STATEMENTS

KOLORFUSION INTERNATIONAL, INC.

CONDENSED BALANCE SHEETS

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ASSETS	December 31, 2002	June 30, 2002
	(Unaudited)	(Audited)
<S>	<C>	<C>
CURRENT ASSETS:		
Cash and cash equivalents	\$ 38,527	\$ 9,903
Trade accounts receivable	448,094	212,273
Inventories	175,093	177,095
Total current assets	661,714	399,271
OTHER ASSETS:		
Patents, net	1,353,916	1,477,001
Other	1,270	1,270
LEASEHOLD IMPROVEMENTS AND EQUIPMENT, net	55,044	62,702
	\$ 2,071,944	\$ 1,940,244

LIABILITIES AND STOCKHOLDERS' DEFICIT

CURRENT LIABILITIES:

Accounts payable	\$ 202,060	\$ 407,405
Notes payable	446,000	450,000
Accrued expenses	42,275	33,054
Accrued expenses due stockholders	269,500	261,000
Payable to individual	2,246,414	2,246,414
	-----	-----
Total current liabilities	3,206,249	3,397,873
STOCKHOLDERS' DEFICIT:		
Common stock	21,918	21,918
Additional paid-in capital	9,220,663	9,220,663
Accumulated deficit	(10,376,886)	(10,700,210)
	-----	-----
	(1,134,305)	(1,457,629)
	-----	-----
	\$ 2,071,944	\$ 1,940,244
	=====	=====

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Note: The balance sheet at June 30, 2002 has been taken from the audited financial statements at that date, and has been condensed.

See Notes to Condensed Financial Statements.

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KOLORFUSION INTERNATIONAL, INC.

STATEMENTS OF OPERATIONS
(Unaudited)

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	Three Months Ended December 31		Six Months Ended December 31	
	2002	2001	2002	2001
	-----	-----	-----	-----
<S>	<C>	<C>	<C>	<C>
Revenues	\$ 339,772	\$ 466,960	\$ 1,448,419	\$ 723,832
Expenses:				
Cost of sales	189,830	418,867	427,503	583,015
Selling, general and administrative	380,947	276,124	682,696	589,101
Other income (expense)	(3,829)	(897)	(14,896)	(35,699)
	-----	-----	-----	-----
Net income(loss)	\$ (234,834)	\$ (228,928)	\$ 323,324	\$ (483,983)
	=====	=====	=====	=====
Income(loss) per common share	\$ (.01)	\$ (.01)	\$.01	\$ (.02)
	=====	=====	=====	=====
Income(loss) per common share assuming dilution	\$ (.01)	\$ (.01)	\$.01	\$ (.02)
	=====	=====	=====	=====
Weighted average outstanding shares	21,818,144	21,818,144	21,818,144	21,818,144
	=====	=====	=====	=====

</TABLE>

See Notes to Condensed Financial Statements.

KOLORFUSION INTERNATIONAL, INC.
 CONDENSED STATEMENTS OF CASH FLOWS
 (Unaudited)

<TABLE>
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	Six Months Ended December 31	
	2002	2001
<S>	<C>	<C>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	\$ 323,324	\$ (483,983)
Depreciation and amortization	147,566	148,000
Loss on disposal of equipment		31,350
Change in:		
Accounts receivable	(235,821)	(181,908)
Inventories	2,002	(57,320)
Accounts payable	(205,345)	398,834
Accrued expenses	9,221	
Accrued expenses due stock holders	8,500	32,000
	-----	-----
Net cash provided by (used in) operating activities	49,447	(113,027)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of leasehold improvements and equipment	(16,823)	(2,477)
	-----	-----
Net cash used in investing activities	(16,823)	(2,477)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from payable to stockholder		25,000
Checks issued in excess of bank balance		7,172
Payments on notes payable	(4,000)	(2,792)
	-----	-----
Net cash provided by (used in) financing activities	(4,000)	29,380
	-----	-----
Net decrease in cash	28,624	(86,124)
Cash and cash equivalents:		
Beginning of period	9,903	86,445
	-----	-----
End of period	\$ 38,527	\$ 321
	=====	=====

</TABLE>

See Notes to Condensed Financial Statements.

KOLORFUSION INTERNATIONAL, INC.

NOTES TO CONDENSED FINANCIAL STATEMENTS
(Unaudited)

Note 1. Condensed Financial Statements:

The condensed balance sheet as of December 31, 2002, the statement of operations for the periods ended December 31, 2002 and 2001, and the condensed statement of cash flows for the periods then ended have been prepared by the Company, without audit. In the opinion of management, all adjustments (which include only normal recurring adjustments) necessary to present fairly the financial position, results of operations and changes in cash flows at December 31, 2002 and for all periods presented have been made.

Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted. It is suggested that these condensed financial statements be read in conjunction with the financial statements and notes thereto included in the Company's June 30, 2002 audited financial statements. The results of operations for the period ended December 31, 2002 are not necessarily indicative of the operating results for the full year.

Note 2. Stockholders' Equity:

During the six months ended December 31, 2002, stockholders' equity changed for a net income of \$323,324.

KOLORFUSION INTERNATIONAL, INC.

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

Revenues decreased in the quarter ended December 31, 2002 to \$339,772 from \$466,960 in 2001. A part of the lower revenues was the result of the deferral of some processing accounts in December because the Company moved to

its new larger facility during the months of December and January.

Cost of sales decreased in the quarter ended December 31, 2002 to \$189,830 from \$418,867 in 2001 as the Company adopts more cost efficient processing procedures and the increasing sales of its printed goods to its licensee base. The Company expects the profit margin to increase as it acquires new customers and expands its OEM licensee base. Selling, general and administrative expenses increased in 2002 to \$380,947 from \$276,124 in 2001, largely as a result of increased personnel for sales and processing.

The result was a net loss in the quarter ended December 31, 2002 of \$234,834 compared to a net loss of \$228,928 in the same quarter in 2001. The net loss per share was \$.01 in 2002, compared to \$.01 in 2001.

Revenues increased in the six months ended December 31, 2002 to \$1,448,419 from \$723,832 in 2001. The increase is due to increasing acceptance of the Company's patented process with new customers and licensee contracts.

Cost of sales decreased in the six months ended December 31, 2002 to \$427,503 from \$583,015 in 2001. Selling, general and administrative expenses increased in 2002 to \$682,696 from \$589,101 in 2001, largely as a result of new key personnel.

The result was a net income in the six months ended December 31, 2002 of \$323,324 compared to a net loss of \$483,983 in the same period in 2001. The net income per share was \$.01 in 2002, compared to a net loss of \$.02 in 2001.

SIGNIFICANT ACCOUNTING POLICIES

Financial Reporting Release No. 60, which was recently released by the Securities and Exchange commission, requires all companies to include a discussion of critical accounting policies or methods used in the preparation of financial statements. Note 1 of the Notes to the Financial Statements for the year ended June 30, 2002 includes a summary of the significant accounting policies and methods used in the preparation of our Financial Statements. The following is a brief discussion of the more significant accounting policies and methods used by the company.

General

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 reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the dates of the financial statements and reported amounts of revenues and expenses during the reporting periods. The most significant estimates and assumptions relate to the valuation of inventory, patent rights and the recognition of revenue. Actual amounts could differ from these estimates.

Inventory Valuation

Inventories consist primarily of raw materials are valued at the lower of cost or market (first-in, first-out method).

Revenue Recognition

License and royalty revenue is recognized upon completion of the earnings process. The Company recognizes sales when products are shipped, collectibility is probable, and the fee is fixed or determinable.

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Patent rights

The cost of the patent rights is being amortized using the straight-line method over nine years. In accordance with SFAS No. 121, the Company evaluates whether changes have occurred that would require revision of the remaining estimated lives of recorded long-lived assets, or render those assets not recoverable. If such circumstances arise, recoverability is determined by comparing the undiscounted cash flows of long-lived assets to their respective carrying values. The amount of impairment, if any, is measured on the projected cash flows using an appropriate discount rate.

Certain statements in this report constitute forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and the Securities Exchange Act of 1934. These statements may appear in a number of places in this report and can be identified by the use of terminology such as "anticipate," "believe," "estimate," "intend," "may," "could," "possible," "plan," "will," "forecast," and similar words or expressions. The Company's forward-looking statements generally relate to, among other things: (i) the Company's financing plans; (ii) trends affecting the Company's financial condition or results of operations; (iii) the Company's growth strategy and operating strategy; and (iv) the declaration of any payment of dividends. Investors must carefully consider forward-looking statements and understand that such statements involve a variety of risks and uncertainties, known and unknown, and may be affected by inaccurate assumptions. Consequently, no forward-looking statement can be guaranteed and actual results may vary materially. The Company undertakes no obligation to update any forward-looking statement.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

The Company is aware of no legal proceeding which is pending or threatened to which the Company is a party or of which its property is subject.

Item 3. Controls and Procedures

Under the supervision and with the participation of our management, including our principal executive officer, we conducted an evaluation of our disclosure controls and procedures, as such term is defined under Rule 13a-14(c) promulgated under the Securities Exchange Act of 1934, as amended, within 90 days of the filing date of this report. Based on their evaluation, our principal executive officer concluded that Kolorfusion International, Inc.'s disclosure controls and procedures are effective.

Item 6. Exhibits and Reports on Form 8-K

(b) No reports on Form 8-K were filed during the six months ended December 31, 2002.

SIGNATURE

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

KOLORFUSION INTERNATIONAL, INC.

Date: February 10, 2003

By: /s/ Stephen Nagel

President

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CERTIFICATIONS

I, Stephen Nagel, certify that:

1. I have reviewed this quarterly report on Form 10-QSB of Kolorfusion International, Inc.;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. I am responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:
 - a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
 - b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
 - c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

a) all significant deficiencies in the design or operation of internal controls which could adversely effect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly effect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

DATE: FEBRUARY 10, 2003

SIGNED: /S/ STEPHEN NAGEL

NAME: STEPHEN NAGEL
TITLE: CHIEF EXECUTIVE OFFICER AND
PRINCIPAL FINANCIAL OFFICER

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CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

I, Stephen Nagel, the Chief Executive Officer and principal financial officer of Kolorfusion International, Inc. (the "Company") in compliance with 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, hereby certify that, the Company's Quarterly Report on Form 10-QSB for the period ended December 31, 2002 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and fairly presents, in all material respects, the financial condition and results of operations of the Company.

DATE: FEBRUARY 10, 2003

SIGNED: /S/ STEPHEN NAGEL

NAME: STEPHEN NAGEL
TITLE: CHIEF EXECUTIVE OFFICER AND
PRINCIPAL FINANCIAL OFFICER

