MEDIA SCIENCES INTERNATIONAL INC
Form SB-2
July 30, 2004

AS FILED WITH THE SECURITIES AND EXCHANGE COMMISSION ON JULY 30, 2004

REGISTRATION STATEMENT NO. 333-_____

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

FORM SB-2

REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933

MEDIA SCIENCES INTERNATIONAL, INC.
(Name of small business issuer in its charter)

Delaware	5045	87-0475073
(State or jurisdiction of incorporation or organization)	(Primary Standard Industrial Classification Code Number)	(I.R.S. Employer Identification Number)

40 Boroline Road
Allendale, New Jersey 07401
201-236-9311
(Address and telephone number of principal executive offices)

Michael W. Levin
Chief Executive Officer and President
Media Sciences International, Inc.
40 Boroline Road
Allendale, New Jersey 07401
201-236-9311
(Name, address, and telephone number of agent for service)

Copies of communications to:

Dan Brecher, Esq.
Law Offices of Dan Brecher
99 Park Avenue, 16th Floor
New York New York 10016
(212) 286-0747

Approximate date of commencement of proposed sale to the public: From time to time on or after the effective date of this Registration Statement.

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

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

TABLE OF CONTENTS

PROSPECTUS SUMMARY

This summary highlights information contained elsewhere in this prospectus. You should read the entire prospectus carefully before making a decision to invest in our common stock.

OUR BUSINESS

We are a manufacturer of supplies for digital workgroup color printers. We manufacture and distribute printer supplies, including solid ink sticks and toner cartridges for use in Tektronix, Xerox, QMS-Minolta, Epson, Ricoh and other color printers. While we primarily sell our supplies through a international distribution channel, we also sell supplies directly to certain end users through our INKlusive program and to those with whom we have a historical relationship.

We are a Delaware corporation. Our principal corporate office is located at 40 Boroline Road, Allendale, New Jersey 07401. Our telephone number is 201-236-9311. Our web site address is www.mediasciences.com.

THE OFFERING

Total shares outstanding	9,932,210 shares of common stock
Total shares to be outstanding	10,132,210 shares of common stock

after the offering	
Common stock offered for resale to the public	1,450,000 shares of common stock, of which: o 1,250,000 shares were issued to two persons in separate private transactions; and o 200,000 shares underlie stock options held by two persons to purchase shares of our common stock.
Price per share of common stock to the public	Market price at the time of resale
Proceeds from offering	We will not receive any of the proceeds from the sale of the shares of common stock offered by the selling stockholders. However, we may receive proceeds from the exercise of stock options, which will be used for working capital.
Trading Symbol for common stock	GFX

RISK FACTORS

You should carefully consider the risks described below before making an investment. Although the factors identified below are important factors, those are not the only ones facing us. If any of the following risks occurs, our actual results could differ significantly, and the trading price of our common stock could decline, and you may lose all or part of your investment. You should also keep these risk factors in mind when you read forward-looking statements. We have identified all of the material risks which we believe may affect our business and the principal ways in which we anticipate that they may affect our business or financial condition.

WE EXPECT OUR EXPENSES TO INCREASE IN 2005, SO WE MAY NOT BE PROFITABLE OR GENERATE CASH FROM OPERATIONS IN THE FUTURE.

We expect our expenses to increase as we continue to transition our business from a printer reseller to a printer ink supply manufacturer and distributor. We may incur operating losses and net losses for the near term as we incur additional costs associated with the growth of our Media Sciences subsidiary, entry into new markets, and the expansion of our administrative, operational, marketing and sales organizations. For the one year period ended June 30, 2003, we generated net income of $245,391, or $0.07 per common share. For the three month period ended March 31, 2004, we earned $128,051, or $0.01 per share, basic and diluted, as compared to earnings of $36,298, or $0.01 per share basic and diluted for the corresponding three month period ended March 31, 2003. For the nine month period ended March 31, 2004, we incurred a loss of $1,414,544 after preferred stock dividends, or $(0.27) per share, basic and diluted, as compared to earnings of $212,032 after preferred stock dividends, or $0.06 per share, basic and diluted, for the corresponding nine month period ended March 31, 2003. We do not know how much capital we will need to develop these services and products. We cannot assure you that our revenues will increase as a result of our increased spending. If revenues grow more slowly than we anticipate, or if operating expenses exceed our expectations, we may not continue to be profitable.

IF WE DEFAULT ON OUR OBLIGATIONS UNDER A CREDIT LINE WITH A LENDING BANK, THE BANK COULD FORECLOSE ON MOST OF OUR ASSETS.

We have a $3,000,000 revolving line of credit with a financial institution. We can borrow up to $3,000,000 under a revolving line of credit, subject to availability of collateral. Borrowings bear interest at 1.75% over the lender's base rate, are payable on demand and are collateralized by all of our assets. As of March 31, 2004, $2,247,606 was outstanding under this line. This line expires on October 31, 2006. If we are unable to repay our outstanding indebtedness under the credit line, the bank could foreclose on all of our assets. If we do not have sufficient cash flow to repay the credit line indebtedness or if we cannot refinance the obligation, we will not be able to implement our business plan, which would have a material adverse affect on our future viability. We may not be able to repay our outstanding indebtedness under the credit line. Substantially all of our assets are subject to security interests held by the bank. Unless the security interests are released, assets will not be available to us to secure future indebtedness, which may adversely affect our ability to borrow in the future.

OUR BUSINESS MODEL HAS CHANGED FROM PREVIOUS YEARS, AND WE MAY MAKE POOR BUSINESS DECISIONS AS WE TRY TO GROW OUR BUSINESS.

We have transitioned our primary business focus from that of a computer graphics reseller to a manufacturer and supplier of color printer consumables, and we may not be able to successfully grow this business or compete in the printer consumable market. We may encounter difficulties in growing this business division by making unwise capital expenditures or by engaging in other unproductive activities if we make poor business decisions, because most of our senior management have worked for us when we were primarily a computer graphics reseller, and those management personnel did not have prior business experience in the manufacture and sales of color printer consumables.

WE MAY ENCOUNTER MANUFACTURING PROBLEMS AND INCUR COSTS ASSOCIATED WITH REMEDYING THE PROBLEMS, WHICH WOULD REDUCE OUR PROFIT MARGINS AND GENERATE LESS INTEREST IN OUR PRODUCTS.

We may encounter problems in the manufacture of our products that would reduce our profit margins or increase operating costs and lead to less interest in our products. Because we provide warranties to our customers, we may incur costs with remedying the problem. Although we maintain quality control over our products in the manufacturing process, we may not become aware of any problems until after the products are sold.

WE ARE AT A COMPETITIVE DISADVANTAGE BECAUSE WE OPERATE IN A MARKET THAT IS DOMINATED BY COMPANIES THAT ARE THE ORIGINAL MANUFACTURERS OF PRINTERS FOR WHICH WE SUPPLY PRODUCTS, AND WE MAY BE SLOWER TO RESPOND TO TECHNICAL CHANGES.

As a third party supplier of color printer consumables, we are at a competitive disadvantage in product innovation. The market is dominated by companies that are the original manufacturers of printers, like Xerox, and so we may be slower to respond to technical changes. Instead, we will have to compete by providing innovative service offerings, but the dominant companies in the market may be quick to counter any competitive service offerings that we provide. For example, approximately 90 days after we announced our No-Cap Color free color printer program, the predecessor to our current INKlusive program, Tektronix announced its own free color printer program. The Tektronix program has continued since Xerox acquired the color printer division from Tektronix in 2000.

IF WE ARE NOT ABLE TO OBTAIN PATENTS ON OR OTHERWISE PRESERVE AND PROTECT OUR PROPRIETARY TECHNOLOGIES, OUR BUSINESS MAY SUFFER DUE TO COMPETITION.

If we cannot obtain patent or other protection for our proprietary technologies, our ability to compete in our markets could be impaired due to competition resulting from others using similar technologies. We have applied for, and will apply for, certain patents covering some of our products. Some of our products use proprietary technology that is not covered by a patent or similar protection, and in many cases, cannot be protected. We cannot be certain that:

- any patents will be issued on our applications;
- any patents that we will own will protect our business against competitors that develop similar technologies or products;
- our patents will be held valid if they are challenged or subjected to reexamination or reissue;
- others will not claim rights to our patented or other proprietary technologies; or
- others will not develop technologies which are similar to, or can compete with, our unpatented proprietary technologies.

CLAIMS OF INTELLECTUAL PROPERTY INFRINGEMENT BY OR AGAINST US COULD SERIOUSLY HARM OUR BUSINESS AS COMPETITORS USE SIMILAR TECHNOLOGIES AS OURS AND COMPETE AGAINST US, OR AS AFFECT OUR ABILITY TO USE CERTAIN TECHNOLOGIES.

Claims of intellectual property infringement by us could seriously harm our business as competitors use similar technologies, or, in instances of claims against us, we may be unable to use certain technologies. From time to time, we may be forced to respond to or prosecute intellectual property infringement claims to defend or protect our rights or a customer's rights. These claims, regardless of merit, may consume valuable management time, result in costly litigation or cause product shipment delays. Any of these factors could seriously harm our business and operating results. We may have to enter into royalty or licensing agreements with third parties who claim infringement. These royalty or licensing agreements, if available, may be costly to us. If we are unable to enter into royalty or licensing agreements with satisfactory terms, our business could suffer as we may not be able to utilize certain technologies, if deemed infringing upon a third party's rights. In instances where we believe we may be infringing the patent rights of others, or that someone may be infringing our patents rights, we have asked our patent counsel to evaluate the validity of the patents in question, as well as the potentially infringing conduct; however, our counsel's conclusision are not binding upon third parties or upon the courts if we become involved in a dispute.

OUR COMMON STOCK DOES NOT TRADE ACTIVELY AND MAY BE SUBJECT TO GREAT PRICE VOLATILITY AS MORE SHARES OF COMMON STOCK BECOME FREELY TRADABLE.

Because there has been a very limited market for our common stock, it may be difficult to sell our common stock in the open market. Because of our new services which may generate substantial revenues and increased dilution caused by our private placement and incentive based options granted to our employees, we expect to encounter substantially more activity in trading in our common stock and expect the market price of our common stock to be highly volatile in the future.

WE HAVE AUTHORIZED A CLASS OF PREFERRED STOCK WHICH MAY ALTER THE RIGHTS OF COMMON STOCK HOLDERS BY GIVING PREFERRED STOCK HOLDERS GREATER DIVIDEND RIGHTS, LIQUIDATION RIGHTS AND VOTING RIGHTS THAN OUR COMMON STOCKHOLDERS HAVE.

The Board of Directors is empowered, without stockholder approval, to issue preferred stock with dividend, liquidation, conversion, voting or other rights that could adversely affect the voting power or other rights of the holders of common stock. Our amended Certificate of Incorporation authorizes a class of 5,000,000 shares of preferred stock with such designation, rights and preferences as may be determined from time to time by the Board of Directors. In the event of issuance, the preferred stock could be utilized, under certain circumstances, as a method of discouraging, delaying or preventing a change in control of the company. We filed a certificate of designation for a series of 1,000,000 shares of series A preferred stock, of which none are presently outstanding. We may issue more shares of preferred stock in the future which may have different designations, rights and preferences than the series A preferred stock.

USE OF PROCEEDS

All shares of common stock sold pursuant to this prospectus will be sold by the selling stockholders. We will not receive any of the proceeds from the sale of shares of common stock. However, we will receive the sale price of the common stock we sell to the selling stockholder upon exercise of stock options held by the selling stockholders. We would receive an aggregate of $212,000 if the selling stockholders exercise their 200,000 stock options, at exercise price of $1.06 per share. We expect to use the proceeds received from the exercise of the stock options, if any, for general working capital purposes.

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

This prospectus contains forward-looking information. Generally, the words "anticipates," "expects," "believes," "intends," "could," "may," and similar expressions identify forward looking statements. Forward-looking statements involve risks and uncertainties, including those described under "Risk Factors" in this prospectus. We caution you that while we believe any forward-looking statement are reasonable and made in good faith, expectations almost always vary from actual results, and the differences between our expectations and actual results may be significant.

The following discussion and analysis should be read in conjunction with the information set forth in the audited financial statements for the year ended June 30, 2003.

RESULTS OF OPERATIONS
FOR THE THREE AND NINE MONTHS ENDED MARCH 31, 2004 AND 2003

SALES. Our consolidated sales for the three months ended March 31, 2004 as compared to the same period in 2003, increased approximately 33% to $4,874,606 from $3,665,763. The net increase in sales resulted from an increase in Media Sciences supply sales of approximately 52% offset by a decrease in Cadapult sales of approximately 10%. Our consolidated sales for the nine months ended March 31, 2004 as compared to the same period in 2003, increased approximately 15% to $12,907,606 from $11,178,469. The net increase in sales resulted from an increase in Media Sciences supply sales of approximately 25% offset by a decrease in Cadapult sales of approximately 22%. The shift in sales from Cadapult to Media Sciences is to be expected as we focus on the higher margin growth opportunity in Media Sciences' supplies.

COST OF GOODS. Our cost of goods for the three months ended March 31, 2004 was $2,686,363 as compared to $1,817,197 for the same period in 2003, or approximately 55% and 50% of sales respectively. Our cost of goods for the nine months ended March 31, 2004 was $6,718,687 as compared to $5,600,041 for the same period in 2003, or approximately 52% and 50% of sales, respectively. Cost of goods for the period ending March 31, 2004 increased due to a shift in product sales mix in our toner line.

SELLING, GENERAL AND ADMINISTRATIVE. For the three months ended March 31, 2004, compared to the same period in 2003, our selling, general and administrative expenses increased to $1,817,619 from $1,356,297, thus each remaining at 37% of sales. For the nine months ended March 31, 2004 as compared to the same period in 2003, our selling, general and administrative expenses increased to $4,606,442 from $3,890,148, or slightly up to 36% of sales from 35% of sales. We have increased our product development and marketing expenditures to increase the pace of product introduction and market penetration. During the three months ended March 31, 2004, we introduced seven new product lines. We expect to introduce up to four more new product lines over the next nine months. Consequently we will continue to make marketing and product development expenditures to support these new product introductions.

DEPRECIATION AND AMORTIZATION. For the three months ended March 31, 2004 as compared to the same period in 2003, our depreciation expense decreased slightly to $180,663 from $201,636. Amortization expense was $2,292 and $3,153 for the two periods, respectively. For the nine months ended March 31, 2004 as compared to the same period in 2003, our depreciation expense remained unchanged at just over $595,000. Amortization of intangibles for the nine months ended March 31, 2004 and 2003 was $6,926 and $12,985, respectively.

INTEREST EXPENSE. For the three months ended March 31, 2004 as compared to the same period in 2003, our interest expense decreased to $95,298 from $101,043. For the nine months ended March 31, 2004 as compared to the same period in 2003 our interest expense decreased to $296,506 from $341,736. The decrease in interest expense can be attributed to the repayment of certain notes and the expiration of certain capital leases.

INCOME TAXES. For the three months ended March 31, 2004, we recorded a current income tax expense of $19,214 and a deferred income tax expense of $66,152 as compared to a current income tax expense of $30,781 and a deferred income tax expense of $100,855 in 2003. For the nine months ended March 31, 2004, we recorded a current income tax credit of $25,797 and a deferred income tax expense of $463,587 as compared to a current income tax expense of $104,648 and a deferred income tax expense of $354,433 in 2003. For all periods, we recorded the current income tax expense because of New Jersey's two-year suspension of the use of net operating loss carry-forwards. For all periods presented, our effective tax rate was approximately 40%.

DIVIDENDS. For the three months ended March 31, 2004, we incurred no dividend charges or expenses. For the nine months ended March 31, 2004 we incurred a preferred stock dividend charge of $2,071,230 including the $1,913,824 non-cash preferred stock dividend and induced conversion charge, as described more fully in Note 5 to the Condensed Consolidated Financial Statements.

NET INCOME (LOSS) APPLICABLE TO COMMON STOCK. For the three month period ended March 31, 2004, we earned $128,051 or $0.01 per share, basic and diluted, as compared to earnings of $36,298 or $0.01 per share basic and diluted for the corresponding three month period ended March 31, 2003. For the nine month period ended March 31, 2004, we incurred a loss of $1,414,544 after preferred stock dividends or $(0.27) per share basic and diluted, as compared to earnings of $212,032 after preferred stock dividends or $0.06 per share basic and diluted for the corresponding nine month period ended March 31, 2003. The loss for the nine months ended March 31, 2004 is due to the non-cash dividend and induced conversion charge as described more fully in Note 5 to the Condensed Consolidated Financial Statements.

RESULTS OF OPERATIONS
FOR THE YEAR ENDED JUNE 30, 2003

SALES. Sales for the year ended June 30, 2003, compared to the year period ended June 30, 2002, increased approximately 5% to $14,597,862 from $13,844,318. Media Sciences sales increased approximately 16% to $9,599,263 from $8,300,027.

COST OF SALES. Cost of sales for the year ended June 30, 2003 were $7,175,113, or approximately 49% of sales, as compared to $7,240,840, or approximately 52% of sales, for the year period ended June 30, 2002. The reduction in cost of sales as a percentage of sales reflects the continued increase in Media Sciences business relative to the Cadapult business.

SELLING, GENERAL AND ADMINISTRATIVE. Selling, general and administrative expenses for the year ended June 30, 2003 decreased to $5,255,743, or 36% of sales, from $6,282,040, or 45% of sales, for the year ended June 30, 2002. For the year ended June 30, 2003, our selling general and administrative costs included approximately $1.35 million of expenses related to the recall of our solid ink in January 2002 and the related warranty expenses as compared to approximately $3 million, net of $1 million insurance benefit for the prior year. In addition, for the year ended June 30, 2002, we recorded a net reduction in our selling, general and administrative costs of approximately $600,000 due to the settlement of a legal malpractice suit.

DEPRECIATION AND AMORTIZATION. Depreciation and amortization expense for the year ended June 30, 2003 increased to $790,512, including $532,403 included in cost of sales, from $736,097 for the year ended June 30, 2002 of which $447,313 was included in cost of sales.

INTEREST EXPENSE. Interest expense for the year ended June 30, 2003 increased to $448,623 from $409,857 incurred for the year ended June 30, 2002. The increase in interest was due to increased borrowings and the interest component of payments on capital leases and the supplier agreement.

INCOME TAXES. For the year ended June 30, 2003, we recorded a current income tax expense of $132,573 and a deferred income tax expense of $452,685 as compared to a current income tax expense of $4,330 and a deferred income tax benefit of $152,000 for the year ended June 30, 2002. We recorded the current income tax expense because of New Jersey's two-year suspension of the use of net operating loss carry forwards.

DIVIDENDS. For the year ended June 30, 2003, we accrued $586,059 of stock dividends to our preferred shareholders and paid $43,556 in stock dividends through a common stock issuance at $0.95 per share. In June 2002, our Board of Directors voted to offer preferred shareholders the option to receive payment-in-kind for the dividend periods ending June 30, 2002 and September 30, 2002 in order to conserve cash flow, through a common stock issuance at $0.95 per share, the fair market value of our common stock on that date. Fourteen shareholders elected to receive their dividend payments through the payment-in-kind, totaling $87,112 and consisting of 91,694 shares of common stock for the two periods ending June 30, 2002 and September 30, 2002.

NET INCOME (LOSS). For the year ended June 30, 2003 we earned $245,391, or $0.07 per share basic and diluted, as compared to the year ended June 30, 2002, where we incurred a loss applicable to common shareholders of $859,048, or $0.25 per share. The conversion of the Series A convertible preferred stock has been excluded from the computation of diluted earnings per share for the years ended June 30, 2003 and 2002, as the conversion would be anti-dilutive after adding back preferred stock dividends to net income.

LIQUIDITY AND CAPITAL RESOURCES

We experienced positive cash flow for the nine months ended March 31, 2004. Cash flows from operating activities were $548,933 primarily due to net income of $656,686, a non cash charge of $595,066 for depreciation and amortization, $463,587 for deferred income taxes and an increase in accounts payable of $637,403 offset by increases in accounts receivable of $458,820, in inventories of $696,868 and in prepaid expenses and other current assets of $92,150 and a decrease in accrued supplier expenses, income taxes payable, deferred revenue and other accrued expenses and current liabilities of $600,151. Our inventory levels are increasing due to the increase in products in our product line, growing sales and the long lead time from Asian suppliers.

We experienced positive cash flow of $24,287 for the one year period ended June 30, 2003. Cash flows from operating activities resulted in positive cash flows of $314,365 resulting primarily from net income of $875,016, non-cash charges of $790,511 for depreciation and amortization and $452,685 for deferred income taxes, offset by a decrease in accounts payable of $971,533 and an increase in accounts receivable of $702,010.

The cash we used in investing activities for the nine months ended March 31, 2004 included the purchase of equipment in the amount of $165,441. The cash we used in investing activities for the one year ended June 30, 2003 included the purchase of equipment in the amount of $296,296 and the purchase of intangibles associated with the acquisition of ultraHue in December 1999 in the amount of $94,608.

Cash used in financing activities for the nine months ended March 31, 2004 included net debt payments of $148,046, payments of accrued dividends of

$152,375 and payment of expenses associated with the issuance of common stock of $37,485. Cash generated by financing activities for the one year ended June 30, 2003 included advances from officers, investors and short-term bank debt in the amount of $275,705 offset primarily by payments on long-term debt of $155,256.

Prior to August 8, 2003, we had an agreement with a lender under which we were able to borrow up to $4 million, under a revolving line of credit, subject to availability of collateral. As of June 30, 2003, $1,779,862 was outstanding under this line. We were in compliance with all covenants as of June 30, 2003. On August 8, 2003, we entered into a new agreement with a new lender under which we can borrow up to $3 million under a revolving line of credit, subject to availability of collateral. Borrowings bear interest at 1.75% over the lender's base rate, are payable on demand and are collateralized by all assets of our company. This line expires on October 31, 2006. As of March 31, 2004, $2,247,606 was outstanding under this line.

Between August 2000 and September 2003, the Company borrowed an aggregate of $450,000 from its President. The funds were used for general corporate purposes. The debt is structured through two notes payable. The first note, in the amount of $255,000, bears an interest rate of 10% per annum and is payable in monthly installments of interest only through May 2004. The second note, in the amount of $195,000, bears an interest rate of 20% per annum and is payable in monthly installments of interest only through May 2005. There is no representation or assurance made that Mr. Levin will make any further loans to us. In January 2004, our President, Michael W. Levin, voluntarily reduced the interest rate on one of his two loans to us to 10%. Both of these loans now carry a 10% interest rate.

In December 2000, the note payable to ultraHue came due and was satisfied with a cash payment of $760,000 and a demand note in the amount of $400,000 bearing an interest rate of 13% per annum. Through June 2003, we repaid $150,000 of this note. In January 2004, we paid the balance in the amount of $250,000 on the 13% note due to UltraHue.

On June 5, 2001, we issued a $400,000 promissory note and warrants to purchase up to 200,000 shares of our common stock at $1.00 per share to Consonance Services Group. The note matured on June 5, 2003 and bore a simple interest at the rate of 12% per year. The note was secured by a security agreement which covered all corporate assets. Two members of this investor group were persons who bear the following relationships with Media Sciences or with our officers and directors: Paul Baker is a director of Media Sciences and Mitchell Baker is the son of Paul Baker. On June 5, 2003, we repaid the $400,000 note due to the Consonance Services Group, through the issuance of eight, $50,000 promissory notes, due on June 5, 2005 and carrying a 20% interest rate, to the eight individuals comprising the Consonance Group. These notes are unsecured. In July 2004, three warrant holders exercised a total of 75,000 warrants for proceeds to the Company of $75,000.

On June 14, 2002, we issued short-term promissory notes aggregating $175,000 and warrants to purchase up to 87,500 shares of our common stock exercisable for five years at $1.00 per share to seven note holders: Paul Levin, Frank and Edna Blanco, Nathan D. Watters, Adam H. Watters, Mitchell Baker, Esther Baker, and Harold and Marsha Kugelman. The notes matured in December 2002 and bore simple interest at the rate of 12% per year. In December 2002, we repaid the $175,000 borrowed in June through cash principal payments of $75,000 and through the issuance of new, one-year notes aggregating $100,000 and bearing simple interest of 20%, payable quarterly. The note holders were persons who bear the following relationships with Media Sciences or with our officers and directors: Paul Levin is the father of Michael W. Levin, President and Chairman of Media Sciences; Frank and Edna Blanco are the parents of Frances Blanco, Vice President and a director of Media Sciences; Mitchell Baker is the son of Paul Baker, a director of Media Sciences; and Esther Baker is the wife of Paul Baker. Three of the four new note holders are persons who bear the following relationships with Media Sciences or with our officers and directors: Paul Levin is the father of Michael W. Levin, President and Chairman of Media Sciences; Frank and Edna Blanco are the parents of Frances Blanco, Vice President and a director of Media Sciences; and Mitchell Baker is the son of Paul Baker, a director of Media Sciences.

The terms of the loans from the Company's officers, directors, and others having relationships with our officers and directors were determined by the Board of Directors in light of the Company's financial condition, the terms of previous borrowings from such persons, and the terms on which short-term loans were available from public resources. The terms of these loans were deemed fair to the Company and viewed as arm's length transactions. There are no ongoing contractual or other commitments with any of these persons resulting from these transactions, and there is no representation or assurances made that any of these persons will make any further loans to us.

CAPITAL EXPENDITURES

We anticipate committing to additional color product development programs. Costs of these programs during the next twelve months are estimated to be up to $1,200,000.

INFLATION

We have historically offset any inflation in operating costs by a combination of increased productivity and price increases, where appropriate. We do not expect inflation to have a significant impact on our business in the future.

SEASONALITY

We anticipate that our cash flow from operations will be slightly better in the fall and winter months than in the spring and summer months due to the sales cycles associated with our Cadapult Graphic Systems subsidiary business. In the event that we are unable to generate sufficient cash flows from operations, we may be required to utilize other cash reserves, if any, or seek additional equity or debt financing to meet operating expenses, and there can be no assurance that there will be any other cash reserves or that additional financing will be available or, if available, on reasonable terms.

CRITICAL ACCOUNTING POLICIES

USE OF ESTIMATES

The accompanying consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States. When more than one accounting principle, or method of its application, is generally accepted, management selects the principle or method that is appropriate in the Company's specific circumstances. Application of the accounting principles requires the Company's management to make estimates about the future resolution of existing uncertainties and that affect the reported amounts of assets, liabilities, revenues, expenses which in the normal course of business are subsequently adjusted to actual results. Actual results could differ from such estimates. In preparing these financial statements, management has made its best estimates and judgments of the amounts and disclosures included in the consolidated financial statements giving due regard to materiality.

REVENUE RECOGNITION, ACCOUNTS RECEIVABLE AND ALLOWANCE FOR DOUBTFUL ACCOUNTS

Revenue is recognized at the point of shipment for goods sold, and ratably through the duration of service contracts. Deferred Revenue consists principally of billings on service contracts prior to rendering related services.

The Company markets its products to an international network of dealers and distributors. Credit is extended after a credit review by management which is based on a customer's ability to perform its obligations. Such reviews are regularly updated. The allowance for doubtful accounts is based upon agings of customer balances and specific account reviews by management. Media Sciences International, Inc. has no concentrations of credit risks and generally does not require collateral or other security from its customers.

Accounts receivable are presented net of a reserve for doubtful accounts of $35,000 at June 30, 2003 and 2002, which represented 1.9% and 2.7%, respectively, of gross trade receivables.

INVENTORIES AND INVENTORY RESERVES

Inventories are stated at the lower of cost or market, with costs being determined on a first-in, first-out method. Work-in-process and finished goods include material costs, labor costs and manufacturing overhead. The Company evaluates its inventories periodically to identify excess, slow-moving and obsolete inventories and assess reserve adequacy. At June 30, 2003 and 2002, no reserve was deemed necessary.

GOODWILL AND IMPAIRMENT

The excess of the purchase consideration over the fair value of the net assets of acquired businesses is considered to be goodwill and, until June 30, 2001, was being amortized over 15 years using the straight-line method.

The Company reviews goodwill when events or changes in circumstances indicate that the carrying amount of goodwill may not be recoverable. We also review goodwill as required by SFAS No. 142, "Goodwill and Other Intangible Assets", which requires that goodwill be tested annually using a two-step process. The first is to identify any potential impairment by comparing the carrying value of reporting units to their fair value. If a potential impairment is identified, the second step is to compare the implied fair value of goodwill with its carrying amount to measure the impairment loss. Reporting unit fair value is estimated using the income approach, which assumes that the value of a reporting unit can be computed as the present value of the assumed future returns of an enterprise discounted at a rate of return that reflects the riskiness of an investment. A significant increase in the rate at which the assumed future returns are discounted could result in an unexpected impairment charge to goodwill, which could have a negative impact on our operating results.

At June 30, 2003 and 2002, net goodwill amounted to $4,986,030 and $4,891,421, respectively, with accumulated amortization amounting to $521,962 for both years. The goodwill resulted from the acquisition of substantially all of the assets of UltraHue, Inc. We have completed all transitional and annual impairment tests necessary to date and concluded that our goodwill is not impaired.

STOCK-BASED COMPENSATION

The Company has elected to follow Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" and related interpretations in accounting for stock options and awards. Accordingly, no compensation costs for stock options is included in operating results since all awards were made at exercise prices at or above their fair value on the dates of grants.

In December 2002, the FASB issued SFAS No. 148, "Accounting for Stock- Based Compensation - Transition and Disclosure, amending FASB Statement No. 123, Accounting for Stock Based Compensation." This statement amends SFAS No. 123 to provide alternative methods of transition for an entity that voluntarily changes to the fair value based method of accounting for stock- based employee compensation. It also amends the disclosure provisions of SFAS No. 123 to require prominent disclosure about the effects on operating results of an entity's accounting policy decisions with respect to stock-based employee compensation. SFAS No. 148 also amends APB 28, "Interim Financial Reporting" to require disclosure about those effects in interim financial information. We adopted the disclosure provisions for the year ended June 30, 2003.

The following table illustrates the effect on results of operations for the year ended June 30, 2003 if the Company had applied the fair value recognition provisions of SFAS No. 123.

	Fiscal Year Ended June 30, 2003	2002
Net income (loss), as reported	$245,391	$(859,048)
Stock-based employee compensation expense under fair value method, net of related tax effects	$(64,599)	$ (21,633)
Pro forma net income (loss)	$180,792	$(880,681)
Income/(Loss) per share:		
Basic, as reported	$0.07	$(0.25)
Basic, pro forma	$0.05	$(0.25)
Diluted per share, as reported	$0.07	$ --
Diluted per share, pro forma	$0.05	$ --

The following table illustrates the effect on results of operations for the three and nine months ended March 31, 2004 if the Company had applied the fair value recognition provisions of SFAS No. 123.:

	Three Months Ended March 31, 2004	2003	Nine Month March 2004
Net income as reported	$128,051	$193,704	$ 656,686
Less preferred stock dividends	--	157,406	2,071,230
Income (loss) applicable to common shareholders	$128,051	$ 36,298	$(1,414,544)
Stock-based employee compensation expense under fair value method, net of related tax effects	(13,204)	(7,201)	(30,387)
Pro forma net income (loss)	$114,847	$ 29,097	$(1,444,931)
Income (loss) per share:			
Basic and diluted, as reported	$0.01	$0.01	$(0.27)
Basic and diluted, pro forma	$0.01	$0.01	$(0.28)

ABOUT THE COMPANY

OUR ORGANIZATION HISTORY

We are a Delaware corporation named Media Sciences International, Inc. Our web site address is www.mediasciences.com.

We originally incorporated under the laws of the State of Utah on August 11, 1983 under the name Communitra Energy, Inc. On July 16, 1985, we amended our articles of incorporation to change our name to Seafoods Plus, Ltd. We did not engage in any substantive business activity from approximately 1988 to June 18, 1998.

On June 18, 1998, we acquired Cadapult Graphic Systems Inc., a privately-held New Jersey corporation formed on May 1, 1987 engaged in the business of providing of computer graphics systems, peripherals, supplies and services to visual communicators and graphics professionals, in a transaction viewed as a reverse acquisition.

On August 14, 1998, we reincorporated under the laws of the State of Delaware as Cadapult Graphic Systems, Inc. On August 11, 1999, we formed Media Sciences, Inc., as a wholly-owned New Jersey subsidiary, for the manufacture and distribution of digital color printer supplies.

In December 1999, Media Sciences, Inc. acquired the assets of ultraHue, Inc., a New Mexico corporation, a manufacturer of workgroup color printer supplies.

On April 19, 2002, we amended our certificate of incorporation to change our corporate name to Media Sciences International, Inc.

On April 26, 2002, we formed Cadapult Graphic Systems, Inc., as a wholly-owned New Jersey subsidiary, for selling supplies directly to certain end users.

We are presently organized with two operating subsidiaries: Media Sciences, Inc. and Cadapult Graphic Systems, Inc. Media Sciences International, Inc., as a parent corporation, does not engage in substantive independent business operations. We conduct substantially all of our operations through our subsidiaries.

As of July 28, 2004, we had 9,932,210 shares of common stock issued and outstanding, and no preferred shares outstanding.

We have not been subject to bankruptcy, receivership or any similar proceedings.

OUR BUSINESS

We are a manufacturer of supplies for digital workgroup color printers.

Our wholly-owned subsidiary, Media Sciences, Inc., manufactures and distributes color printer supplies, including solid ink sticks and color toner cartridges for use in Xerox and other color printers. Media Sciences distributes these products internationally through a network of dealers and distributors. We intend to grow this business through an expansion of our product line, expansion of our distribution channels and through demand creation marketing programs.

Our wholly-owned subsidiary, Cadapult Graphic Systems, Inc., sells supplies directly to certain end users through our INKlusive color printer program and to those with whom we have a historical relationship.

OPERATING STRATEGY

We have a strategic objective of becoming the leading independent manufacturer of supplies for digital color business printers. We intend to achieve this objective through an expansion of our product line, through brand development, an expansion of our distribution network and through marketing programs.

The opportunity to sell Media Sciences supplies exists in the installed base of workgroup, or business, color printers. The installed base are those color printers used by organizations of all sizes. Almost all of these organizations are using the printer manufacturers' supplies such as Tektronix, Xerox or QMS. We believe that as color printers become more commonplace in the office environment, a subset of these users will seek alternative supplies to the printer manufacturers' brand, primarily as a way to reduce the cost of ownership of their color printers. If we look at the color market as being analogous to the monochrome printer and supply market, we believe an opportunity exists for alternate supply manufacturers to achieve a 20-25% market share in the aggregate. Our objective is to be the leader within this market space by providing high quality, less expensive color printer supplies through the same distribution channels used for selling the printer manufacturers' supplies.

In addition to penetrating the installed base, we intend to create a significant new set of color printer users who are contractually committed to our supplies. We are striving to achieve this objective through our sales programs such as our INKlusive color printer program. We believe this program provides a unique opportunity for organizations that are not currently using color printers to migrate to color without the cost and technology risk of buying a printer outright.

PRINCIPAL PRODUCTS AND SERVICES AND PROGRAMS

PRODUCTS

SOLID INK STICKS. We manufacture and distribute solid ink sticks for use in the Xerox/Tektronix Phaser 340, 350, 360, 840, 850, 860, 8200 and Phaser 8400 color printers. Our ink is sold under the Media Sciences brand, and under the `house' brands of several of our customers. We offer flexible, custom packaging to meet the needs of those distribution partners. Our solid ink is typically sold to organizations at prices that are 20% to 50% less than those of the Xerox/Tektronix brand.

TONER CARTRIDGES. We manufacture toner cartridges for use in Tektronix, Xerox, QMS-Minolta, Epson, and Ricoh color pinters. We offer two lines of toner cartridges: Premium Color Toner Cartridges and our Clearcase line of toner cartridges. As with our ink, our toner cartridges are sold under the Media Sciences brand and under the house brands of our distributors. We plan to expand our toner cartridges offerings both within the above lines of color printers and to other color printer manufacturers as well.

- Premium Color Toner Cartridges -- Our Premium Color Toner Cartridge line of toner cartridges include toner cartridges for Xerox/Tektronix Phaser 1235, 2135, 7300 and 6200 color printers, QMS-Minolta 3100 and Epson C4000 color printers. These are new cartridges offered at a discount to those of Xerox.

- Clearcase -- Our Clearcase line of toner cartridges are for use in Xerox/Tektronix Phaser 560, 740, 750, 780, 790 and 7700 color printers, QMS Magicolor 330 and Ricoh 3800 color printers. These are newly manufactured toner cartridges, featuring a unique clear case, allowing the user to see the colored toner within the cartridges. These cartridges are offered at a discount of up to 30% to the prices of the printer manufacturer.

SALES PROGRAMS

INKlusive. Our INKlusive color printer program, and its variations, provide a customer with a workgroup color printer, on-site service, and a box of ink for a fixed charge per month at a substantial discount. The program requires a 24 month commitment, and upon successful completion of the program, the printer is the customer's to keep at no additional charge. The INKlusive program is targeted at small businesses, education, non-profits and real estate agents and brokers. The program is advanced by our channel partners who receive a commission for each unit placed, and are encouraged to sell additional Media Sciences supplies to the customer.

Media Sciences offers this program in conjunction with a financing company. Media Sciences does not own or otherwise finance the cost of the printer.

No-Cap Color. Our No-Cap Color program provides a customer with one or more workgroup color printers, at no charge, in return for a monthly or bi-monthly commitment to purchase certain Media Sciences supplies from us. We offer several printers under this program, including two business printers, one solid ink, one laser, and one graphic arts printer. These printers have retail values of up to $6,000 and include service throughout the duration of the program. We target the broad corporate market with this program, as well as certain vertical markets. The printer remains the property of Media Sciences or its assignees at all times.

Our No-Cap Color program offers benefits to both the end user and Media Sciences. The end-user benefits by obtaining a color printer without a capital investment and without service costs. End user costs are limited to the purchase of supplies that they would need to purchase anyway. We benefit by creating new customers with an obligation to purchase our supplies, thereby creating a high-margin reoccurring revenue stream.

Printers for our No-Cap Color program are purchased outright and/or leased to us by third party leasing companies. We have discontinued new unit placements under the No-Cap program in favor of INKlusive program placements. We expect to continue to generate revenues from the existing No-Cap printer base for at least one year.

MARKETING AND SALES PLANS

We intend to increase our marketing and sales efforts. The goal of these efforts is to increase revenues through increased market awareness of our products and sales programs.

We are expanding our Media Sciences distribution channels through outside sales efforts and direct mail. We intend to strengthen these channels through performance based sales incentive programs. We plan to build end-user awareness and demand for our supplies through advertising and marketing campaigns.

We are marketing our INKlusive program through our channel partners, web advertising and affiliates and through direct mail promotions.

INDUSTRY AND MARKET OVERVIEW

The office environment has been dominated by monochrome (black and white) printers and color monitors. Over the past several years, color printers have been introduced to the office environment for mission critical applications where color is a must. Today, however, with the ever-increasing quality, print speed and lower costs of acquisition and ownership, these printers are being placed and used more frequently in the office. U.S. placements of these workgroup color printers are expected to increase from 486,000 in 2000 to 5,767,000 in 2005 or at a compound annual growth rate of 64%, according to year 2002 market research by Cap Ventures. We believe the worldwide market for color printers is twice this size and will grow at approximately the same rate. Output in pages from 2000-2005 is expected to change from 292 billion pages in 2000 to 445 billion pages in 2005, but in 2000 color output accounted for approximately 4% of these total pages. It is forecasted that by 2005 it will grow to 8%, according to year 2002 market research by Cap Ventures. As more printers are used and more color pages are produced, organizations large and small will need to manage the on-going and increasing supplies expense for their color printers.

Digital color printers create an ongoing requirement for service and supplies. The reoccurring business of supply purchases often exceeds the original costs of the device over its lifetime. Today, in the color workgroup printer environment, supplies for these printers are manufactured and distributed by the printer manufacturers. There exists little competition to these sources of supplies. As the adoption of color printing technology continues, we expect the demand for alternative supplies to grow dramatically. In the monochrome printer market, year 2000 market research by Lyra Research Inc. estimates that third party supply manufacturers will provide approximately 22-27% of the supplies consumed from 2000-2003. We believe that a similar opportunity exists in the color market.

DISTRIBUTION METHODS OF THE PRODUCTS AND SERVICES

Media Sciences, Inc. sells through an international network of channel partners. Our products are sold under the Media Sciences brand, the house brands of some of our distribution partners and in generic, or non-branded boxes.

Our distribution can also be profiled by the markets they serve, including office supply wholesalers, remanufacturers, technology resellers, catalog and web resellers, and those who sell to the government.

Our products are available in North and South America, Europe, South Africa, and Australia.

Cadapult Graphic Systems, Inc. sells supplies directly to certain end users through our No-Cap Color program and to those with whom we have a historical relationship. These direct sales are conducted through telephone and Internet sales efforts.

COMPETITION

We primarily compete with the original manufacturer of the printers for which we provide supplies, including Xerox, which sells printers under the Tektronix and Xerox brands, QMS-Minolta, Epson and Ricoh. Other than the original equipment manufacturers, we are not aware of any other significant competitor that provides solid ink or toner for use in these printers.

PRINCIPAL SUPPLIERS

Purchases in fiscal year ended June 30, 2004 from three vendors amounted to approximately 45% of cost of goods sold, with no one vendor accounting for more than 18% of cost of goods sold. Purchases in the fiscal year ended June 30, 2003 from one vendor amounted to 11% of cost of goods sold.

We purchase certain important raw materials from a sole source or a limited number of suppliers. Management believes that other suppliers could qualify to provide similar raw materials on comparable terms. The time required to locate and qualify other suppliers, however, could cause a delay in manufacturing that could be disruptive to our Company.

DEPENDENCE ON MAJOR CUSTOMERS

Sales to one customer represented approximately 7% of our revenues in our fiscal year ended June 30, 2004. Sales to that same customer represented 11% of our revenues in our fiscal year ended June 30, 2003.

INTELLECTUAL PROPERTY

We regard our trademarks, trade secrets, and proprietary technology and similar intellectual property as critical to our success, and rely on trademark, copyright and patent law, trade secret protection and confidentiality and other agreements with our employees, customers, partners and others to protect our proprietary rights. We have registered certain trademarks in the United States and have applied for the registration of other trademarks in the United States. We have applied for certain patents in the United States.

NEED FOR GOVERNMENT APPROVAL

Not applicable.

GOVERNMENT REGULATION

Not applicable.

RESEARCH AND DEVELOPMENT

Not applicable.

COMPLIANCE WITH ENVIRONMENTAL LAWS

Not applicable.

EMPLOYEES

We currently have 38 full-time employees, including seven management level employees and one part time employee.

OFFICE FACILITIES

We maintain our executive offices at Allendale, New Jersey, pursuant to a lease expiring on May 31, 2011. We occupy approximately 15,400 square feet, including warehousing and manufacturing facilities at our executive offices in Allendale, New Jersey.

We also maintain a sales office in Redmond, Washington.

Our offices are adequately covered by insurance for claims arising out of such occupancies.

Our present facilities have been suitable for our operations and needs through June 30, 2004. We believe that we may need new or additional facilities in the future to accommodate our current and projected growth. We are evaluating proposals for new or additional facilities.

Location	Approximate Square Feet	Approximate Annual Rent	Use	Lease Expiration Date
40 Boroline Road Allendale, NJ 07401	15,400	$184,800	Executive Offices, Warehouse, and Manufacturing Facility	May 31, 2011
201 MJL Center 16398 NE 85th Street Redmond, WA 98052	1,500	$28,200	Sales	month to month lease

LEGAL PROCEEDINGS

As at June 30, 2004, we are not a party to any material pending legal proceeding, other than ordinary routine litigation incidental to our business.

CHANGE IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

(a) FORMER INDEPENDENT ACCOUNTANT

Wiss & Company LLP audited our financial statements for our fiscal year ended June 30, 2003. Wiss & Company has been our principal independent accountant since about June 1998.

In 2003, Wiss & Company informed us that Wiss & Company decided to discontinue to provide audit services to publicly-held companies registered with the United States Securities and Exchange Commission and to exit the practice area.

We requested Wiss & Company to stand for re-election as our principal independent accountant and to continue to perform audit services for us in connection with our 2004 fiscal quarters until we had the opportunity to select and obtain new independent accountants in connection with our June 30, 2004 fiscal year end, and Wiss & Company agreed to do so.

On February 10, 2004, we engaged J.H. Cohn LLP as our principal independent registered public accounting firm, and the services of Wiss & Company as our principal independent accountant were concluded. The change in accountants was necessitated by the decision of Wiss & Company to exit the SEC practice area.

Wiss & Company's report on our financial statements for the past two years did not contain an adverse opinion or disclaimer of opinion, and were not modified as to uncertainty, audit scope, or accounting principles. There were no disagreements with Wiss & Company, whether or not resolved, on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure, which, if not resolved to Wiss & Company's satisfaction, would have caused it to make reference to the subject matter of the disagreement in connection with its report.

(b) NEW INDEPENDENT ACCOUNTANT

On February 10, 2004, we engaged J.H. Cohn LLP as our principal independent registered public accounting firm. As described above, the change in accountants was necessitated by the decision of Wiss & Company to exit the SEC practice area. Our Board of Directors, and our Audit Committee, approved the selection of J.H. Cohn LLP as our principal independent registered public accounting firm. We did not previously consult with J.H. Cohn LLP regarding the application of accounting principles to a specific completed or contemplated transaction, or the type of audit opinion that might be rendered on our financial statements, and no written or oral advice was provided that was an important factor considered by us in reaching a decision as to the accounting, auditing or financial reporting issue.

MANAGEMENT

DIRECTORS AND EXECUTIVE OFFICERS

The persons listed in the table below are our present directors and executive officers.

Name	Age	Position
Michael W. Levin	39	Chief Executive Officer, President and Chairman of the Board
Frances Blanco	43	Vice President Marketing and Investor Relations, Treasurer, and Director
Duncan Huyler	43	Vice President Operations and Technical Services
Duncan Yates	34	Vice President Sales
Denise Hawkins	35	Vice President, Controller and Secretary
Paul C. Baker	67	Director
Edwin Ruzinsky	71	Director
Donald Gunn	52	Director and Vice President of Engineering
Henry Royer	72	Director
Alan Bazaar	34	Director

Our directors are elected annually to serve for one year and hold office until the next annual meeting of the shareholders and until their successors are elected and qualified. Our Board of Directors may increase the size of the Board of Directors. Any director who fills a position created by the Board of Directors serves until the next annual meeting of the shareholders. Our officers are elected by the Board of Directors at the first meeting after each annual meeting of our shareholders, and hold office until their death, resignation or removal from office.

MANAGEMENT PROFILES

MICHAEL W. LEVIN, CHIEF EXECUTIVE OFFICER, PRESIDENT AND CHAIRMAN OF THE BOARD:

Michael W. Levin has served as our Chief Executive Officer, President and Chairman of the Board since June 18, 1998. Mr. Levin serves on the compensation committee. Before June 1998, he had served as President, Treasurer, Secretary and Chairman of Media Sciences' predecessor, Cadapult Graphic Systems Inc. ("CGSI") since 1987, when he founded CGSI while attending Lehigh University. He is responsible for a senior management team as well as merger and acquisition activity and corporate finance. In 2002, Mr. Levin was recognized in Business News New Jersey's annual "40 under 40" issue, which profiles the state's outstanding business leaders under the age of 40. He also was selected as the honorary annual fundraising chairman for the Children's Cancer Research Fund of New York Medical College in 1999. In 1987, Mr. Levin graduated summa cum laude from Lehigh University, receiving a Bachelor of Science Degree in Mechanical Engineering.

FRANCES BLANCO, VICE PRESIDENT OF MARKETING AND INVESTOR RELATIONS, TREASURER, AND DIRECTOR:

Frances Blanco has served as our Vice President of Marketing and Investor Relations, Treasurer, and a Director since June 18, 1998. She also served as Secretary from June 18, 1998 through June 30, 2004. From 1993 to June 18, 1998, she served as Vice President of Marketing and Investor Relations, Treasurer, Secretary and a director of CGSI. Blanco manages all aspects of marketing, including brand identity, demand creation and vendor relationships for us as well as investor relations. From 1984 through 1989, Blanco was a Reseller Account Manager at Lotus, where she designed and implemented tactical channel programs. From August 1989 through June 1993, Blanco served as a Business Development Manager at Tektronix, Inc., where she was responsible for the development of color printing standards in strategic customers. She earned a Bachelor of Science degree in Marketing from Bentley College in 1982 and a Masters of Business Administration degree from Boston College in 1985.

DUNCAN HUYLER, VICE PRESIDENT OF OPERATIONS AND TECHNICAL SERVICES:

Duncan Huyler has served as our Vice President of Operations and Technical Services since June 18, 1998. From 1993 to June 18, 1998, he served as Vice President of Technical Services for CGSI. Huyler manages all technical and customer service aspects for us, as well as operational management including IT, telecommunications, purchasing and internal controls. From May 1983 through October 1987, Huyler served as an officer in the U.S. Army. From September 1988 through August 1993, Huyler worked for The May Department Stores Company and Lord & Taylor, where his positions included Senior Financial Analyst and Director of Systems. Huyler graduated from Cornell University in 1983 with a Bachelor of Science degree in Business and earned a Masters of Business Administration from the University of Louisville in 1987.

DUNCAN YATES, VICE PRESIDENT OF SALES:

Duncan Yates has served as Vice President of Sales since July 2000. Prior to July 2000, Yates served as the Regional Sales Manager for Cadapult Graphic Systems, which he joined in 1993. Yates manages all aspects of direct sales for Media Sciences' value added reseller business, including achieving quarterly revenue and gross profit targets, developing sales plans and strategies, hiring and training sales staff, and implementing vertical market pilot programs. Yates is also responsible for technology reseller development. Yates is a 1992 graduate of Western Maryland College with a Bachelor of Science degree in Political Science.

DENISE HAWKINS, VICE PRESIDENT, CONTROLLER AND SECRETARY:

Denise Hawkins has served as Vice President for Media Sciences since February 12, 2003, and as Secretary since July 1, 2004. Ms. Hawkins manages the accounting aspects of the business while working closely with the President and senior management team. She is a Certified Public Accountant and a Certified Management Accountant. She began her employment with the company in July of 2001 as the Controller. Ms. Hawkins graduated from the State University of New York-The College at New Paltz with a Bachelor of Science degree in Accountancy in 1990 and graduated from Marist College in 1998 with a Masters in Business Administration in Finance. Prior to her position at Media Sciences, Ms. Hawkins was the controller for NFK Excavating and Construction, Inc.(2000-2001), Horizon Medical Group, PC (1998-2000) and VAC Service Corp.(1992-1998). She is currently serving as the Treasurer for the Board of Helping Hands Christian Pre-School. Ms Hawkins is affiliated with the New Jersey State Society of Certified Public Accountants, the Institute of Management Accountants and the Society for Human Resource Management.

PAUL C. BAKER, DIRECTOR:

Paul C. Baker has served as a Director since June 18, 1998. Mr. Baker is the chairman of the Compensation committee and also serves on the audit committee. From 1986 to 2000 he was President of Sherwood Partners, Inc., a venture capital and management consulting company, which he founded, that focused on developing companies with high growth potential. From 2000 to present, he has been General Partner of PCB Associates, LLC which performs similar services. Prior to 1986, Baker held various management positions during 25 years of employment with American Cyanamid Co., including President of Cyanamid's Shulton, Inc. subsidiary from 1977 to 1979 and Group Vice President of Cyanamid from 1979 to1984. Baker graduated from Lehigh University in 1959 and 1960 with degrees in Engineering and Liberal Arts and received his MBA degree from Fairleigh Dickinson University in 1963.

EDWIN RUZINSKY, DIRECTOR:

Mr. Ruzinsky has served as a Director since August 27, 1999 and is the chairman of the Audit committee. He is a Certified Public Accountant and a Certified Management Consultant. Prior to his retirement on June 1, 1996 as a Partner in Deloitte Consulting LLC, a wholly-owned subsidiary of Deloitte & Touche LLP, he served for many years as the firm's National Director-Media Industry Services. He previously served Times Mirror Company as Vice President of Finance & Administration/Book Publishing Group and Parent's Magazine Enterprises, Inc. as Chief Accounting Officer. Mr.Ruzinsky continues serving as a member of the Pace University/Dyson School of Liberal Arts & Sciences/Master of Science in Publishing Advisory Board. He is currently a member of the Boards of Dowden Health Media, Inc., a provider of specialized publications and customized communication products for healthcare professionals and consumers, and of Gentis, Inc., engaged in the research and development of therapeutic products for the repair and regeneration of human tissues (such as cartilage tissue and intervertebral disc tissue) through the use of scaffolds that beneficially affect progenitor and other cells at the site of repair or regeneration.

DONALD GUNN, VICE PRESIDENT OF ENGINEERING AND DIRECTOR:

Donald Gunn has served as a Director since December 23, 1999. Since December 13, 1999, he has served as Vice President of Media Sciences, Inc. Gunn manages product development and strategic major account relationships for Media Sciences. He founded ultraHue, Inc., a manufacturer of ink and toner products for computer printers in March 1996. He served as President and Chief Executive Officer of ultraHue until we acquired ultraHue on December 13, 1999. From June 1997 to November 1998, he served as the Western Sales Manager for Invention Machine Corporation, a Boston based provider of software designed to aid engineers in the development of engineering solutions. From August 1995 to May 1997, he worked as Regional Manager for the Pacific Northwest for 3D Systems, located in Valencia, California, a company that produces stereo lithography machines. From October 1987 to August 1995, he worked for the Color Printer Division of Tektronix, Inc., located in Wilsonville, Oregon, in various sales and marketing positions, including Major Account Manager and VAR Account Manager for the Western United States. From July 1986 to October 1987, he worked as a sales manager for Silma, Inc., located in Santa Clara, California, a company that produced software for industrial equipment. From January 1985 to June 1986, he was the Western Area Sales Manager for AAB Robotics, located in Fort Collins, Colorado, a company that produced equipment for the welding industry. He received a Bachelors of Science degree in Electrical Engineering from the University of Illinois in 1974.

HENRY ROYER, DIRECTOR:

Henry Royer has served as a Director since December 23, 1999. Mr. Royer serves on the Compensation committee. From 1965 to 1983, Mr. Royer held several positions at First National Bank of Duluth, serving as Executive Vice President/Loans when he left First National Bank. He then joined The Merchants National Bank of Cedar Rapids, now named US Bank Cedar Rapids, N.A., where he served as Chairman and President until August 1994. From September 1994 through December 31, 1997, he served as the President and Chief Executive Officer of River City Bank, Sacramento, California. He served as an Independent Trustee of Berthel Growth & Income Trust I from its date of inception in 1995 through February 5, 1999, when he resigned to join Berthel Fisher & Company Planning Inc., and was elected President of Berthel Trust in July 1999. He was elected President of Berthel SBIC, LLC in August 1999. He currently serves as Chairman of the board of Cedar Rapids Bank and Trust and as a member of the board of QCRH a bank holding company. He also serves on various Boards of privately-held companies. He graduated in 1953 from Colorado College with a B.A. in Money and Banking.

ALAN BAZAAR, DIRECTOR:

Alan Bazaar has served as a Director since June 30, 2004. He is a Certified Public Accountant. Mr. Bazaar is a Vice President and Portfolio Manager at Richard L. Scott Investments, LLC. His responsibilities include co-managing a public company portfolio for Richard L. Scott Investments, LLC, a value-oriented, family investment office, focused on both public and private equity investments. Mr. Bazaar performs all elements of due diligence on perspective investment companies. From 1995 to July 1999, Mr. Bazaar was with Arthur Anderson LLP. At Arthur Andersen, he worked for both the Assurance and Financial Buyer's Practices and in his last position he served as a Supervisory Senior Consultant in their Business Fraud and Investigation Services Unit. Mr. Bazaar graduated from Bucknell University in 1992 with a degree in History, and he received a MBA from New York University, Leonard N. Stern School of Business in 1997.

BOARD COMMITTEES AND MEETINGS

During the fiscal year that ended on June 30, 2004, the Board of Directors held five meetings. During this period, all of the directors serving on the Board at the time attended or participated in more than 75% of the aggregate of the total number of meetings of the Board of Directors. The Audit Committee met three times in connection with fiscal year 2004.

We have an Audit Committee, which through the review of our 2003 fiscal year financials consisted of the following members of the Board of Directors: Edwin Ruzinsky, Paul Baker and Sagiv Shiv. In connection with our fiscal year ended 2004, our Audit Committee consists of: Edwin Ruzinsky and Paul Baker.

Mr. Ruzinsky is a financial expert. The function of the Audit Committee includes reviewing internal financial information, monitoring cash flow, budget variances and credit arrangements, reviewing the audit program of Media Sciences, reviewing with Media Sciences' independent accountants the results of all audits upon their completion, annually selecting and recommending independent accountants, overseeing the quarterly unaudited reporting process and taking such other action as may be necessary to assure the adequacy and integrity of all financial information distribution by Media Sciences. Each member of the Audit Committee is independent as defined under the American Stock Exchange's listing standards. The Audit Committee consists of non-employee directors whom Media Sciences has determined are free of any relationship that could influence their judgement as a committee member and are not associated with a major vendor to, or a customer of, Media Sciences.

We have a Compensation Committee, which has consisted of the following members of the Board of Directors: Paul Baker, Henry Royer and Michael W. Levin. The function of the Compensation Committee is to make determinations concerning salaries and incentive compensation for our officers and employees.

Members of the Audit Committee and Compensation Committee are selected each year by our Board of Directors after our annual stockholders' meeting. Selection to a committee of the Board of Directors is determined by the majority vote of the Board of Directors. The Board of Directors intends to elect incumbent directors who are re-elected to the Board of Directors to continue to serve on the committees they presently serve.

We have not yet adopted a code of ethics applicable to our directors, officers and employees. We are in the process of implementing a code of ethics, and expect to adopt a code of ethics prior to September 2004 during our fiscal year 2005.

We presently do not have a separate nominating committee of the Board of Directors for the selection of directors, and do not have a nominating committee charter. Presently, all such actions are performed by the entire Board of Directors.

OTHER INFORMATION ABOUT DIRECTORS

None of the directors are directors of other reporting companies, are associated by family relationships, or have been involved in legal proceedings.

EXECUTIVE COMPENSATION

SUMMARY COMPENSATION TABLE

The table below sets forth information concerning the annual and long-term compensation during our last three fiscal years of our Chief Executive Officer and all of our other officers ("Named Executive Officers").

	Annual Compensation			Long Term Compensation Awards	
Name and Principal Position	Year	Salary	Bonus	Securities Underlying Options/SARS (#)	All O Compe
Michael W. Levin	2004	$200,000	$28,500	0	
Chief Executive Officer	2003	$150,000	$15,000 (b)	500,000 (c)	
and President	2002	$150,000	$15,000 (d)	0	
Frances Blanco	2004	$120,000	$ 3,500	100,000 (e)	

Vice President and Treasurer	2003	$100,000	$15,000 (b)	25,000 (f)
and Secretary	2002	$100,000	$15,000 (d)	0
Duncan Huyler	2004	$120,000	$ 6,000	100,000 (e)
Vice President	2003	$107,185	$ 8,000 (b)	25,000 (f)
	2002	$107,185	$ 8,000 (d)	0
Duncan Yates	2004	$130,000	$11,000	0
Vice President	2003	$116,845	$15,000 (b)	25,000 (f)
	2002	$118,184	$15,000 (d)	0
Donald Gunn	2004	$100,000	$20,607	0
Vice President	2003	$ 90,833	$10,000	25,000 (f)
	2002	$ 80,000	$ 0	50,001 (g)
Denise Hawkins	2004	$ 64,890	$ 1,000	0
Vice President	2003	$ 51,731 (h)	$ 0	0

(a) Refers to our matching contribution under our 401(k) plan, and premiums for life insurance where the beneficiary is not the company.

(b) Refers to bonus compensation, including deferred bonus of $15,000 for each of Levin, Blanco and Yates, and of $8,000 for Huyler.

(c) Refers to stock options granted in June 2003, pursuant to an employment agreement effective as of July 1, 2003. The stock options are exercisable at $1.00 per share and expire in June 2008. Options to purchase 250,000 shares vested immediately and options to purchase an additional 250,000 shares vest ratably over the period July 1, 2003 through June 30, 2005. As of June 30, 2004, 375,000 options are vested.

(d) Refers to bonus compensation, including deferred bonus of $7,500 for each of Levin, Blanco and Yates, and of $4,000 for Huyler.

(e) On May 24, 2004, we issued to each of Frances Blanco and Duncan Huyler, stock options to purchase 100,000 shares of our common stock, of which 50,000 options vested on the grant date, and the remaining 50,000 options are subject to vesting over a three year period. The options are exercisable for ten years at $1.06 per share.

(f) On April 7, 2003, we issued to each of Duncan Huyler, Frances Blanco, Duncan Yates and Donald Gunn, stock options to purchase 25,000 shares of common stock. The stock options vested on April 6, 2004 and are exercisable until April 5, 2008 at $0.50 per share.

(g) Refers to stock options, granted in fiscal year 2000 and reissued in fiscal year 2002, to purchase 50,001 shares of our common stock, subject to vesting over a three year period, exercisable for five years at $1.27 per share.

(h) Became an officer on February 12, 3003. Her reported fiscal year 2003 compensation covers the full fiscal year.

STOCK OPTION INFORMATION

OPTION GRANTS IN FISCAL 2004

The table below sets forth information concerning stock options granted during the fiscal year ended June 30, 2004 to the Named Executive Officers. The percentage of total stock options is based on 247,500 stock options granted to officers, directors, and employees during the 2004 fiscal year.

	Number of Securities	Percent of		

Name	Underlying Options Granted (#)	Total Options Granted to Employees in Fiscal Year	Exercise of Base Price ($/Sh)	Expiration Date
Frances Blanco	100,000	40%	$1.06	5-24-14
Duncan Huyler	100,000	40%	$1.06	5-24-14

OPTION EXERCISES IN FISCAL 2004 AND YEAR END OPTION VALUES

The following table sets forth information concerning the value of unexercised stock options at June 30, 2004 for the Named Executive Officers. The dollar values of the options was determined by multiplying the number of stock options by the difference between the fair market value of a share of common stock underlying an option and the exercise price of the option. Out-of-the-money options are reported as having a dollar value of $0. The last sale price of a share of our common stock on June 30, 2004 was $1.54, as reported by AMEX.

Name	Number of Shares Acquired on Exercise	Value Realized	Number of Unexercised Securities Underlying Options at Fiscal Year End		Value of Unexercised In-the-Money Options at Fiscal Year End	
			Exercisable	Unexercisable	Exercisable	Unexercisabl
Michael W. Levin	0	0	375,000	125,000	$202,500	$62,50
Frances Blanco	0	0	82,741	50,000	$ 52,245	$24,00
Duncan Huyler	0	0	84,265	50,000	$ 53,937	$24,00
Duncan Yates (a)	5,000	2,250	140,430	0	$ 55,995	$
Donald Gunn	0	0	75,001	0	$ 39,500	$
Denise Hawkins	0	0	6,668	3,334	$ 0	$

(a) Exercised 5,000 options on July 21, 2004. The value realized upon exercise was determined by market value per share of common stock on that date of $1.70 less the exercise price of options. At year end 2004, Yates held 17,000 out-of-the money options which are not included in the column of unexercised in-the-money options value.

DIRECTOR COMPENSATION

We have a compensation plan for our independent directors. Eligible outside directors are paid $5,000 per year, payable quarterly, for attendance at regular and special meetings and may be reimbursed for their reasonable out-of-pocket expenses incurred in connection with their attendance at meetings of the Board of Directors and for other expenses incurred in their capacity as directors of Media Sciences. Outside directors are granted five or ten year stock options under the incentive stock option plan to purchase 10,000 shares of common stock, exercisable at the fair market value on the date of appointment to the Board. Outside directors will also be granted, annually, additional stock options to purchase 5,000 shares of common stock.

EMPLOYMENT AGREEMENT WITH NAMED EXECUTIVE OFFICER

Michael W. Levin serves as our Chief Executive Officer and President pursuant to a five-year employment agreement that began as of July 1, 2003. His current annual salary for fiscal year 2004 is to be $200,000. We granted him 500,000 five-year stock options to purchase 500,000 shares of common stock. The exercise price for the stock options is $1.00 per share. Stock options to purchase 250,000 shares vested immediately, additional stock options to purchase 125,000 shares vested on June 30, 2004, and the remaining 125,000 stock options are to vest ratably over the period July 1, 2004 through June 30, 2005. These stock options are cumulative and are subject to anti-dilution rights.

He is also entitled to receive:

- death benefits of $100,000;
- a fifteen-year term life insurance policy for $2,000,000;
- a luxury automobile;
- reimbursement for reasonable travel and other business related expenses;
- six weeks vacation;
- medical and dental insurance; and
- participation in any employee plan, perquisite and other benefits made available to Media Sciences' employees or management in general.

We may also award him an annual performance bonus or other bonus as determined by the Board of Directors.

If we undergo a "change of control", we must pay him an amount equal to 290% of his base compensation. He has the right to terminate his employment if we undergo a change in control. As defined in his employment agreement, a change of control refers to:

- a change in our ownership or management that is required to be reported under the federal securities laws;
- the acquisition, other than directly from Media Sciences, of 25% or more of our common stock or our voting securities by persons other than Media Sciences or Levin;
- a change in a majority of the current Board of Directors, excluding a Board approved change that does not result from a proxy contest;
- a reorganization, merger, consolidation or sale of substantially all of our assets, after which our shareholders do not own, in the same proportion, more than 50% of the voting power, after which a majority of the board of directors changes, and after which a new shareholder beneficially owns 25% or more of the voting power; or
- shareholder approval of our liquidation or dissolution.

The employment agreement provides for termination for cause.

STOCK OPTION PLAN

Under our incentive stock option plan for employees, which was adopted by our Board of Directors and approved by our shareholders in 1998, we reserved 500,000 shares of our common stock for issuance pursuant to exercises of incentive stock options. An incentive stock option entitles the holder to purchase a share of our common stock at a purchase price equal to the fair market value of the common stock on the day of grant. During the year ended June 30, 2004, no stock options granted under this stock option plan were exercised. As of June 30, 2004, we had outstanding stock options to purchase 367,156 shares of common stock, exercisable, subject to vesting, for five or ten years from the date of grant at prices of $0.43 to $4.00. If we undergo a "change of control," the incentive based stock options shall vest immediately.

EMPLOYEE PROFIT SHARING PLAN

We have a tax-qualified employee paired profit sharing plan sponsored by Scudder Financial Services, Inc. This 401(k) plan covers all of our employees that have been employed for at least six months and meet other age and eligibility requirements. Under the 401(k) plan, employees may choose to reduce their current compensation by up to 15% each year and have that amount contributed to the 401(k) plan. We make matching contributions equal to 25% of the employee's contribution. In our discretion, we may contribute unmatched contributions. The 401(k) plan qualifies under Section 401 of the Internal Revenue Code, so that we can deduct contributions by employees or by us. Employee contributions to the 401(k) plan are fully vested at all times, and our contributions, if any, vest at the rate of 25% after two years and after two years at the rate of 25% a year until fully vested.

CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Between August 2000 and September 2003, we borrowed an aggregate of $450,000 from Michael Levin, our President. The funds were used for general corporate purposes. The debt was structured through two notes payable. The first note, in the amount of $255,000, bore an interest rate of 10% per annum and was payable in monthly installments of interest only through May 2004. The second note, in the amount of $195,000, bore an interest rate of 20% per annum and was payable in monthly installments of interest only through May 2005. In January 2004, Michael W. Levin, voluntarily reduced the interest rate on the loan due May 2005 to 10%. We repaid both loans in May and June 2004. There is no representation or assurance made that Mr. Levin will make any further loans to us.

The terms of loans from our officers, directors, and others having relationships with our officers and directors were determined by the Board of Directors in light of our financial condition, the terms of previous borrowings from such persons, and the terms on which short-term loans were available from public resources. The terms of these loans were deemed fair to the company and viewed as arm's length transactions. There are no ongoing contractual or other commitments with any of these persons resulting from these transactions, and there is no representation or assurances made that any of these persons will make any further loans to us.

On June 5, 2001, we issued a $400,000 promissory note and warrants to purchase up to 200,000 shares of our common stock at $1.00 per share to Consonance Services Group. The note matured on June 5, 2003 and bore a simple interest at the rate of 12% per year. The note was secured by a security agreement which covered all corporate assets. Two members of this investor group were persons who bear the following relationships with Media Sciences or with our officers and directors: Paul Baker is a director of Media Sciences and Mitchell Baker is the son of Paul Baker. On June 5, 2003, we repaid the $400,000 note due to the Consonance Services Group, through the issuance of eight, $50,000 promissory notes, due on June 5, 2005 and carrying a 20% interest rate, to the eight individuals comprising the Consonance Group. These notes were unsecured. In June 2004, we repaid these notes after securing a one year, $400,000 term loan from our bank, carrying an interest rate of the banks base rate plus 2%. At June 30, 2004, the interest rate on this term loan was 6%.

On June 14, 2002, we issued short-term promissory notes aggregating $175,000 and warrants to purchase up to 87,500 shares of our common stock exercisable for five years at $1.00 per share to seven note holders: Paul Levin, Frank and Edna Blanco, Nathan D. Watters, Adam H. Watters, Mitchell Baker, Esther Baker, and Harold and Marsha Kugelman. The notes matured in December 2002 and bore simple interest at the rate of 12% per year. In December 2002, we repaid the $175,000 borrowed in June through cash principal payments of $75,000 and through the issuance of new, one-year notes aggregating $100,000 and bearing simple interest of 20%, payable quarterly. In December 2003, we repaid the loan in full. The note holders were persons who bear the following relationships with Media Sciences or with our officers and directors: Paul Levin is the father of Michael W. Levin, President and Chairman of Media Sciences; Frank and Edna Blanco are the parents of Frances Blanco, Vice President and a director of Media Sciences; Mitchell Baker is the son of Paul Baker, a director of Media Sciences; and Esther Baker is the wife of Paul Baker.

On September 24, 2002, we granted options to purchase 5,000 shares of common stock, exercisable for ten years at $0.65 per share to each of Paul Baker, Berthel SBIC, and Ed Ruzinsky in connection with their services on the Board of Directors.

In October 2002, we borrowed $100,000 at a 23% interest rate, with interest due monthly, from Paul Baker, a director of Media Sciences. This loan matured in, and was repaid in, October 2003.

On November 19, 2002, Edwin Ruzinsky purchased 10,000 shares of Media Sciences common stock for $6,500 in the open market.

In December 2002, we borrowed $25,000 at a 23% interest rate, with interest due monthly, from Duncan Yates, an officer. This loan matured in and was repaid in December 2003.

On January 1, 2003, we granted options to purchase 10,000 shares of common stock, exercisable for ten years at $0.60 per share to Sagiv Shiv in connection with his services on the Board of Directors.

On April 7, 2003, we issued to each of Duncan Huyler, Frances Blanco, Duncan Yates and Donald Gunn, stock options to purchase 25,000 shares of common stock. The stock options vested on April 6, 2004 and are exercisable until April 5, 2008 at $0.50 per share.

On May 6, 2003, we granted options to purchase 10,000 shares of common stock, exercisable for ten years at $0.43 per share, to each of Paul Baker and Ed Ruzinsky in connection with their services on the Board of Directors.

In June 2003, pursuant to an employment agreement effective as of July 1, 2003, we issued to Michael Levin stock options to purchase up to 500,000 shares of common stock, exercisable at $1.00 per share and expiring in June 2008. Options to purchase 250,000 shares vested immediately, options to purchase an additional 125,000 shares vested on June 30, 2004, and options to purchase an additional 125,000 shares are to vest ratably over the period July 1, 2004 through June 30, 2005.

On February 10, 2004, we granted options to purchase 5,000 shares of common stock, exercisable for ten years at $0.85 per share to each of Paul Baker, Ed Ruzinsky, Berthal SBIC and Sagiv Shiv in connection with their services on the Board of Directors.

On January 16, 2004, Denise Hawkins purchased 500 shares in the open market for $530.

On May 11, 2004, Michael Levin gifted an aggregate of 22,000 shares to his minor children.

On May 11, 2004, Shiv Sagiv resigned from our board of directors due to personal reasons.

On May 24, 2004, we issued to each of Frances Blanco and Duncan Huyler stock options to purchase 100,000 shares of our common stock, of which 50,000 options vested on the grant date, and the remaining 50,000 options are subject to vesting over a two year period. The options are exercisable for ten years at $1.06 per share.

On June 21, 2004, Duncan Yates exercised 5,000 stock options at $1.25 per share, and sold 5,000 shares of common stock in the open market at $1.70 per share.

On June 30, 2004, we sold 1,000,000 shares of common stock to GFX Investments, LLC, an entity controlled by Richard L. Scott, for $1.25 million. In conjunction with the investment, we agreed to appoint a nominee of GFX Investments, Alan Bazaar, Vice President and Portfolio Manager for Richard L. Scott Investments, LLC, to our board of directors, and we granted Mr. Scott 10,000 stock options, exercisable at $1.69 per share for five years in connection with Board of Directors services. At various times between March 17, 2004 and May 21, 2004, Mr. Scott, through entities controlled by him, purchased an aggregate of 823,750 shares in the open market, at prices of $1.07 to $1.36 per share, for an aggregate purchase price of $982,513. On June 3, 2004, the Frances Annette Scott Revocable Trust, of which Mr. Scott's spouse is the trustee, purchased 6,000 shares in the open market for $6,735.

STOCK OWNERSHIP

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS

The table below sets forth, as of July 28, 2004, the shares of our common stock beneficially owned by each person known to us to be the beneficial owner of more than five percent of our outstanding shares of common stock, except that the security ownership of management is provided in a separate table. This information was determined in accordance with Rule 13(d)-3 under the Securities Exchange Act of 1934, and is based upon the information provided by the persons listed below. As of July 28, 2004, we had 9,932,210 shares of common stock issued and outstanding.

All persons named in the table have the sole voting and dispositive power with respect to common stock beneficially owned. Beneficial ownership of shares of common stock that are acquirable within 60 days upon the exercise or conversion of stock options and warrants are listed separately. For each person named in the table, the calculation of percent of class gives effect to those acquirable shares.

Name and Address of Beneficial Owner	Amount and Nature of Beneficial Owner	Additional Shares Acquirable Within 60 days	Percent of Class

Berthel SBIC, LLC (a) 100 Second Street SE, Cedar Rapids, Iowa 52407	1,112,797	353,000	14.3%
Richard L. Scott (b) 100 First Stamford Place Stamford, Ct. 06902	1,829,750	10,000	18.5%

(a) The beneficial owners of Berthel SBIC are: Thomas J. Berthel, Chief Executive Officer and Chairman; Ronald O. Brendengen, Chief Financial Officer and Chief Operation Officer; Henry Royer, President; Leslie D. Smith, Secretary; and Julie K. Driscoll, Assistant Secretary.

(b) Holds the securities through different entities, including GFX Investments, LLC, for which he is the beneficial owner. Includes 6,000 shares purchased by the Frances Annette Scott Revocable Trust, of which his spouse is the trustee.

SECURITY OWNERSHIP OF MANAGEMENT

The table below sets forth, as of July 28, 2004, the shares of our common stock beneficially owned by each of our officers and directors, and by all of our officers and directors as a group. This information was determined in accordance with Rule 13(d)-3 under the Securities Exchange Act of 1934, and is based upon the information provided by the persons listed below. As of July 28, 2004, we had 9,932,210 shares of common stock issued and outstanding.

All persons named in the table have the sole voting and dispositive power with respect to common stock beneficially owned. Beneficial ownership of shares of common stock that are acquirable within 60 days upon the exercise or conversion of stock options and warrants are listed separately. For each person named in the table, the calculation of percent of class gives effect to those acquirable shares.

The address of each of the persons named in the table is c/o Media Sciences International, Inc., 40 Boroline Road, Allendale, New Jersey 07401, unless otherwise indicated.

Name and Address of Beneficial Owner	Amount and Nature of Beneficial Owner	Additional Shares Acquirable Within 60 days	Percent of Class
Michael W. Levin (a)	1,518,450	375,000	18.4%
Frances Blanco	40,775	132,741 (b)	1.7%
Duncan Huyler	40,775	134,265 (b)	1.7%
Duncan Yates	20,300	145,430	1.6%
Denise Hawkins	500	10,002 (c)	0.1%
Paul Baker	67,500	100,500 (d)	1.7%
Edwin Ruzinsky	20,000	40,000	0.6%
Donald Gunn	25,000	75,001	1.0%
Henry Royer (e) c/o Berthel SBIC 100 Second Street SE Cedar Rapids, Iowa 52407	1,112,797	353,000	14.3%

Alan L. Bazaar (f) c/o Richard L. Scott Investments, LLC 100 First Stamford Place Stamford, Ct. 06902	0	0	0%
All present officers and directors as a group (10 persons)	2,846,097	1,365,939	37.3%

(a) Includes 120,000 shares owned by his minor children. Does not include stock options, scheduled to vest ratably over the period July 1, 2004 through June 30, 2005, exercisable into 125,000 shares.
(b) Includes 50,000 stock options, scheduled to vest ratably from May 24, 2004 through May 24, 2007. The underlying 50,000 shares are included as shares for resale pursuant to this prospectus.
(c) Includes 3,334 shares acquirable upon vesting of stock options scheduled to vest on July 15, 2004.
(d) Includes beneficial ownership of warrants held by spouse to purchase 12,500 shares of common stock, expiring on June 12, 2007.
(e) Henry Royer's reported beneficial ownership refers to the beneficial ownership of Berthel SBIC.
(f) Alan Bazaar disclaims beneficial ownership of shares beneficially owned by Richard L. Scott or entities affiliated with Richard L. Scott, for which Mr. Scott is the beneficial owner.

CHANGES IN CONTROL

We do not have any arrangements that may result in a change in control.

31

SECURITIES AUTHORIZED FOR ISSUANCE UNDER EQUITY COMPENSATION PLANS

Plan category	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance
Equity compensation plans approved by securities holders	1,092,156	$1.01	132,844
Equity compensation plans not approved by security holders	2,544,002	$3.26	0
Total	3,636,158	$2.58	132,844

PLANS IN THE SHAREHOLDER APPROVED CATEGORY

Under our incentive stock option plan for employees, directors and consultants, which was adopted by our Board of Directors and approved by our shareholders on August 10, 1998, we reserved 500,000 shares of our common stock for issuance pursuant to exercises of incentive stock options. An incentive stock option entitles the holder to purchase a share of our common stock at a purchase price equal to the fair market value of the common stock on the day of grant. As of June 30, 2004, we have outstanding incentive stock options to purchase 367,156 shares of common stock, exercisable, subject to vesting, for five or ten years from the date of grant, at prices of $0.43 to $4.00 per share.

On April 7, 2003, we issued to each of Duncan Huyler, Frances Blanco, Duncan Yates, Donald Gunn and Randy Hooker, stock options to purchase 25,000 shares of common stock. The stock options vest on April 6, 2004 and are exercisable until April 5, 2008 at $0.50 per share.

In June 2003, we issued to Michael Levin stock options to purchase up to 500,000 shares of common stock, exercisable at $1.00 per share and expiring in June 2008. Options to purchase 250,000 shares vested immediately and options to purchase an additional 250,000 shares vest ratably over the period July 1, 2003 through June 30, 2005.

PLANS NOT IN THE SHAREHOLDER APPROVED CATEGORY

On December 13, 1999, we issued to each of Donald Gunn and another employee, stock options which were reissued on December 14, 2001, to purchase 50,001 shares of our common stock, subject to vesting over a three year period, exercisable for five years at $1.27 per share. As of June 30, 2003, all 100,002 options are exercisable.

From October 1999 to March 10, 2000, we conducted a private placement of 550,000 units of our securities and raised gross proceeds of approximately $5,500,000. Each unit consisted of one share of convertible preferred stock and a warrant, exercisable for five years at $4.50 per share, to purchase two shares of common stock. In connection with the private placement, we issued to the investors and consultants, including the placement agent and members of the selling group, an aggregate of 550,000 shares of preferred stock and 1,956,500 warrants, exercisable for five years, to purchase shares of common stock, as follows: 15,000 shares at $3.00 per share; 40,000 shares at $3.75 per share; 15,000 shares at $4.00 per share; 550,000 shares at $3.75 per share; 236,500 shares at $1.65 per share; and 1,100,000 shares at $4.50 per share.

Pursuant to an oral employment agreement effective as of July 2000, and as amended September 7, 2000, we issued to Duncan Yates stock options, which were reissued on May 6, 2001, to purchase up to 100,000 shares of common stock, of which stock options to acquire 50,000 shares vested immediately and stock options to acquire an additional 50,000 shares are subject to vesting upon us attaining certain specified corporate milestones, exercisable for five years at $1.25 per share. As of June 30, 2003, all 100,000 options are exercisable. In June 2004, Mr. Yates exercised options to purchase 5,000 shares at $1.25 per share and sold these shares into the open market at $1.70 per share.

On May 31, 2001, we issued warrants to purchase up to 200,000 shares of our common stock exercisable for five years at $1.00 per share in consideration for consulting services. In July 2004, three warrant holders exercised their warrants to purchase 25,000 shares each at $1.00 per share.

On June 14, 2002, in connection with the issuance of short-term promissory notes, we issued warrants to purchase up to 87,500 shares of our common stock exercisable for five years at $1.00 per share.

On May 24, 2004, we issued to two of our management level employees, Frances Blanco and Duncan Huyler, options to purchase 100,000 shares of our common stock, of which 50,000 options vested on the grant date, and the remaining 50,000 options are subject to vesting over a three year period. The options are exercisable for ten years at $1.06 per share.

SELLING STOCKHOLDERS

This prospectus relates to the resale of 1,450,000 shares of common stock by four stockholders. The registration of these shares does not necessarily mean that the selling stockholder will sell all or any of the shares.

The following table provides information regarding the beneficial ownership of our common stock by the selling stockholders as of July 28, 2004. For purposes of the table, 10,132,210 shares are assumed to be outstanding after the offering.

Name of Selling Stockholder	Number of Shares Owned Prior to this Offer	Number of Shares Being Offered	Number of Shares Owned After this Offering	P O A O
GFX Investments, LLC (1)	1,839,750	1,000,000	839,750	
Charles C. Bearoff and Charles F. Bearoff (2)	350,000	250,000	100,000	
Frances Blanco (3)	173,516	100,000	73,516	
Duncan Huyler (3)	175,040	100,000	75,040	
TOTAL	2,538,306	1,450,000	1,088,306	

(1) The beneficial owner is Richard L. Scott. Mr. Scott owns or controls entities, including GFX Investments, LLC, which collectively owns 1,839,750 shares of common stock, including 10,000 shares underlying director compensation stock options and 6,000 shares owned by the Frances Annette Scott Revocable Trust, of which Mr. Scott's spouse is the trustee.

(2) Includes bene ficial ownership of 100,000 shares underlying unexercised common stock purchase warrants.

(3) Number of shares owned prior to offering includes shares underlying unexercised stock options.

GFX Investments, LLC, an entity controlled by Richard L. Scott, purchased 1,000,000 shares of common stock from us for $1.25 million on June 30, 2004. In accordance with the terms of a related registration rights agreement with GFX Investments, LLC, we agreed to indemnify GFX Investments, LLC against certain liabilities under the Securities Act or contribute to payments which GFX Investments, LLC may be required to make in that respect. In conjunction with the investment, we agreed to appoint a nominee of GFX Investments, Alan Bazaar, Vice President and Portfolio Manager for Richard L. Scott Investments, to our board of directors. Prior to June 30, 2004, we had no material relationship with GFX Investments, LLC, or its affiliates.

Charles C. Bearoff and Charles F. Bearoff are former holders of 50,000 preferred shares who did not timely accept our preferred stock offer of conversion which concluded on December 31, 2003 and whose preferred shares were automatically converted into 250,000 shares of common stock pursuant to the terms of the preferred stock designation. Subsequent to December 31, 2003, we permitted them to receive an additional 250,000 unregistered shares of common stock in consideration of return of dividend payments and other consideration, such that we and the former preferred shareholders are in similar positions as if the former preferred shareholders had timely accepted the offer of conversion on December 31, 2003.

Each of Frances Blanco and Duncan Huyler are officers of our company. On May 24, 2004, we issued to each of Blanco and Huyler options to purchase 100,000 shares of our common stock, of which 50,000 options vested on the grant date, and the remaining 50,000 options are subject to vesting over a three year period. The options are exercisable for ten years at $1.06 per share.

PLAN OF DISTRIBUTION

The shares of common stock may be offered from time to time by the selling stockholders or their donees, pledgees, transferees or other successors in interest for resale by this prospectus in one or more transactions at fixed prices, at market prices at the same time of sale, at varying prices determined at the time of sale or at negotiated prices.

The selling stockholders may offer their shares of common stock in one or more of the following transactions:

- on the American Stock Exchange, any other exchange upon which our shares may trade in the future, or in the over-the-counter market;
- to purchasers directly;
- in ordinary brokerage transactions in which the broker solicits purchasers;
- through purchases by a broker or dealer as principal and resale by such broker or dealer for its own account pursuant to this prospectus;
- block trades in which a broker-dealer so engaged will attempt to sell the shares as agent but may take a position and resell a portion of the block as principal to facilitate the transaction;
- in connection with short sales; or
- in any combination of one or more of these methods.

Selling stockholders may sell their shares of common stock:

- at market prices prevailing at the time of sale;
- at prices related to such prevailing market prices;
- at negotiated prices; o at fixed prices; or
- at a combination of such prices.

We will pay for substantially all of the expenses incident to the offer and sale of the shares of common stock offered by the selling stockholders using this prospectus. The selling stockholders will pay applicable stock transfer taxes, transfer fees and brokerage commissions or underwriting or other discounts.

To comply with the securities laws of certain states, the shares of common stock offered by this prospectus may need to be offered or sold in such jurisdictions only through registered or licensed brokers or dealers.

The offering of the shares of common stock pursuant to this prospectus will terminate on the earlier of the time when the shares of common stock:

- o have been sold by the selling stockholders pursuant to this prospectus;
- o the time when all of the shares of common stock are eligible to be sold pursuant to Rule 144(k) under the Securities Act; or
- o this prospectus is no longer effective.

DESCRIPTION OF OUR SECURITIES

GENERAL

Our authorized capital consists of 20,000,000 shares of common stock, par value $.001 per share, and 5,000,000 shares of preferred stock, par value $.001 per share.

As of July 28, 2004, we had 9,932,210 shares of common stock issued and outstanding.

As of July 28, 2004, we had no shares of preferred stock issued and outstanding.

COMMON STOCK

The holders of the common stock are entitled to cast one vote for each share held of record on all matters presented to stockholders. The holders of common stock do not have cumulative voting rights, which means that the holders of more than 50% of the outstanding shares voting for the election of our directors can elect all of the directors, and in such an event, the holders of the remaining shares will be unable to elect any of our directors. Our certificate of incorporation does not provide that the holders of common stock have any preemptive right.

The holders of the outstanding shares of common stock are entitled to receive dividends out of assets legally available at such times and in such amounts as the Board of Directors may from time to time determine, subject to the rights of the holders of our preferred stock. Upon our liquidation, dissolution, or winding up, the assets legally available for distribution to the stockholders will be distributed equally among the holders of the shares, subject to the rights of the holders of our preferred stock.

PREFERRED STOCK

Our Certificate of Incorporation allows our Board of Directors to issue shares of preferred stock in one or more series. The Board can fix for each series, voting powers, designations, preferences and relative, participating, or other special rights to the extent permissible under the Delaware General Corporation Law.

The Board designated 1,000,000 shares as series A preferred stock. The Board, without a vote of the series A preferred stock holders, can increase the number of authorized series A preferred stock above the number of shares of series A preferred stock actually outstanding at any time. The preferred stock does not carry voting rights.

On August 6, 2003, we filed a certificate of amendment to our preferred stock certificate of designation which provides that no payments of dividends or deferred dividends shall be made if the company is in default of its senior lending agreement with a financial institution or if such payment causes an event of default under the senior lending agreement.

In December 2003, we filed a certificate of amendment to our preferred share certificate of designation which provides for automatic conversion of preferred shares into common shares if less than a majority of the originally issued preferred shares becomes outstanding.

In December 2003, we had 547,500 shares of series A preferred stock issued and outstanding. The series A preferred stock was convertible into shares of common stock at the rate of one preferred share into five shares of common stock in accordance with the terms of the designation of the series A preferred stock.

On December 31, 2003, we concluded an exchange offer that provided our preferred stockholders an opportunity to exchange each outstanding preferred share for 10 shares of our common stock. Preferred shareholders who accepted the offer waived their rights to unpaid dividends and interest on their preferred stock. As a consequence of matters related to the exchange offer and the automatic conversion under the certificate of designation of the series A preferred stock, we issued an aggregate of 5,275,000 shares to former preferred shareholders.

DIVIDEND POLICY

We have never declared any cash dividends on our common stock. Future cash dividends on the common stock, if any, will be at the discretion of our Board of Directors and will depend on our future operations and earnings, capital requirements and surplus, general financial condition, contractual restrictions, and other factors that the Board of Directors may consider important.

Prior to January 1, 2004, we had shares of series A preferred stock issued and outstanding. Our series A preferred stock carried a fixed dividend at an annual rate of 11.5%. Dividends were to be paid each quarter in arrears. The first dividend payment occurred on January 1, 2000.

Unless and until we have fully paid all dividends on the outstanding shares of series A preferred stock, we agreed not to declare or pay cash dividends, or distribute or set aside assets, for any of our other securities. Further, the certificate of designation for the series A preferred stock provided that we may not pay dividends if payment of dividends would violate certain financial criteria of our senior lending agreement with a financial institution.

Our senior lending agreement with a financial institution restricts the payment of dividends if certain financial conditions are not met. Under the senior lending agreement, we are required to maintain a certain level of tangible capital funds. Tangible capital funds is defined as the sum of stockholders' equity, PLUS subordinated debt, plus dividends payable, MINUS intangibles and loans to stockholders, employees, other related parties. The lender sets the level of tangible capital funds that we are required to maintain. For June 30, 2004, September 30, 2004, December 31, 2004, and March 31, 2005, the minimum levels were set at $500,000, $600,000, $700,00 and $800,000. Additionally, under the senior lending agreement, we are required to maintain a debt service coverage ratio of not less than 1.2 to 1 for the quarter ending September 30, 2004 and of not less than 1.35 to 1 for the quarters ending thereafter. The ratio is determined on a quarterly basis, considering net income PLUS interest expense, tax expense, depreciation and amortization expense, LESS, the sum of dividends actually paid, unfunded capital expenditures and taxes actually paid, DIVIDED BY the sum of the current portion of long term debt actually paid, any unscheduled debt payments, and interest expense actually paid.

We do not pay, but accrue, dividends if payment would violate the terms of the senior lending agreement. As of June 30, 2004, we are not in default of the financial restrictions of the senior lending agreement that prohibits the payment of dividends. As of June 30, 2003, and as of September 30, 2003, payment of all accrued but unpaid dividends would have violated the tangible capital funds level and the debt service coverage ratio that we are required to maintain under the senior lending agreement. We qualified to recommence the payment of dividends on or about January 1, 2004.

In connection with our fiscal years ended June 30, 2002 and June 30, 2003 and through the quarter ended March 30, 2004, we paid or accrued dividends as follows:

- in the year ended June 30, 2002, we accrued $577,476 of stock dividends and paid dividends totalling $52,039 through issuance of 53,558 shares of common stock valued at $0.95 to $1.10 per share, and as of June 30, 2002, we had $113,849 in dividends accrued and unpaid;
- in the year ended June 30, 2003, we accrued $586,059 of stock dividends and paid dividends totalling $43,556 through issuance of 45,847 shares of common stock valued at $0.95 per share, and as of June 30, 2003, we had $699,919 in dividends accrued and unpaid;
- in the three months ended September 30, 2003, we accrued $157,406 in dividends; and, as of September 30, 2003, an aggregate of $857,325 in dividends remained accrued and unpaid;
- in 2004, we paid an aggregate of $66,125 in accrued dividends.

As of June 30, 2004, we do not have any unpaid or accrued dividends on our preferred stock or other securities.

37

PROVISIONS REGARDING CHANGE OF CONTROL

Our certificate of incorporation and by-laws do not contain any provisions that are designed to delay, defer or prevent a change in control of the company.

Our Board of Directors is not presently aware of any takeover attempts of our company and is not aware of any agreements that exist in the event of a change of control. The Board is Directors does not have any current plans to propose any changes to the charter documents or corporate structure that would have an anti-takeover purpose or effect.

DELAWARE LAW

We are subject to Section 203 of the Delaware General Corporation Law. This statute generally prohibits a publicly-held Delaware corporation from engaging, under certain circumstances, in a business combination with an interested stockholder for a period of three years after the date of the transaction in which the person becomes an interested stockholder, unless:

- prior to the date at which the person became an interested stockholder, the board of directors approved either the business combination or the transaction in which the person becomes an interested stockholder;

- o the stockholder acquires more than 85% of the outstanding voting stock of the corporation, excluding shares held by directors who are officers or held in certain employee stock plans, upon consummation of the transaction in which the person becomes an interested stockholder; or
- o the business combination is approved by the board of directors and by at least 66 2/3% of the outstanding voting stock of the corporation, excluding shares held by the interested stockholder, at a meeting of stockholders and not by written consent held on or subsequent to the date such person became an interested stockholder.

An interested stockholder is a person who, together with affiliates and associates, owns, or at any time within the prior three years did own, 15% or more of the corporation's voting stock. Section 203 defines a business combination to include mergers, consolidations, stock sales, asset-based transactions and other transactions resulting in a financial benefit to the interested stockholder.

TRANSFER AGENT

The transfer agent for our common stock is Continental Stock Transfer & Trust Company, New York, New York.

MARKET INFORMATION

Our common stock is listed on the American Stock Exchange under the symbol "GFX".

The following table sets forth for the periods indicated, the high and low closing sale prices for a share of our common stock, during the relevant periods, as reported by the American Stock Exchange.

Fiscal Year	Quarter Ended	High	Low
2003	September 30, 2002	$1.00	$0.60
	December 31, 2002	$0.85	$0.50
	March 31, 2003	$0.63	$0.47
	June 30, 2003	$0.60	$0.40
2004	September 30, 2003	$1.59	$0.60
	December 31, 2003	$1.34	$1.04
	March 31, 2004	$1.20	$0.85
	June 30, 2004	$1.85	$1.10

HOLDERS

The approximate number of holders of record of our common stock as of June 30, 2004 was 404. As of that date, there were approximately 633 beneficial stockholders, including stockholders holding common stock under nominee security position listings.

LEGAL MATTERS

Our counsel, Law Offices of Dan Brecher, New York, New York, is giving us an opinion on the validity of the shares offered by this prospectus. Dan Brecher, the sole principal of the law firm, through his individual retirement accounts and retirement plan, owns 97,491 shares of common stock of Media Sciences International, and warrants to purchase 20,000 shares of common stock, exercisable at $4.50 per share until October 1, 2004.

EXPERTS

Our financial statements for the years ended June 30, 2003 and 2002, included in this prospectus have been audited by Wiss & Company, LLP, independent auditors, as stated in their reports appearing in this prospectus, and are included in reliance upon such reports given on the authority of said firm as experts in accounting and auditing.

INDEMNIFICATION

We will indemnify our directors, officers, and controlling persons against liability under the Securities Act to the extent permitted by the General Corporation Law of Delaware. We will indemnify them against all expenses and liabilities that is reasonably incurred in connection with this prospectus to the extent allowed under Delaware law.

Insofar as indemnification for liabilities arising under the Securities Act may be permitted to directors, officers and controlling persons of the small business issuer pursuant to the foregoing provisions, or otherwise, the small business issuer has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Securities Act and is, therefore, unenforceable.

In the event that a claim for indemnification against such liabilities, other than the payment by us of expenses incurred or paid by any of our directors, officers, or controlling persons in the successful defense of any action, suit or proceeding, is asserted by such directors, officers or controlling persons in connection with the securities being registered, we will, unless in the opinion of our counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by us is against public policy as expressed in the Securities Act and will be governed by the final adjudication of such issue.

WHERE YOU CAN FIND MORE INFORMATION

This prospectus is part of a registration statement on Form SB-2 under the Securities Act filed by us with the Securities and Exchange Commission. This prospectus omits certain information set forth in the registration statement and the exhibits filed with the registration statement. For further information about us and the shares offered by this prospectus, reference is made to the registration statement and the exhibits filed with it.

We are subject to the informational requirements of the Securities Exchange Act of 1934 which requires us to file annual and quarterly reports, proxy statements and other information with the Securities and Exchange Commission.

You may read and copy any document we file with the SEC at the SEC's Public Reference Room at 450 Fifth Street, N.W., Washington, D.C. 20549. You may obtain further information on the operation of the Public Reference Room by calling the

Commission at 1-800-SEC-0330. Our filings are also available to the public from commercial document-retrieval services and at the web site maintained by the SEC at http://www.sec.gov.

INDEX TO FINANCIAL STATEMENTS

40

MEDIA SCIENCES INTERNATIONAL, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

ASSETS	March 31, 2004 (Unaudited)	June 30, 2003
CURRENT ASSETS :		
Cash	$ 112,053	$ 66,467
Accounts receivable, less allowance for doubtful accounts of $35,000	2,262,353	1,841,060
Inventories	1,786,677	1,089,809
Deferred income taxes	583,728	1,000,000
Prepaid expenses and other current assets	265,200	173,050
Total Current Assets	5,010,011	4,170,386
PROPERTY AND EQUIPMENT, NET	940,472	1,362,734
OTHER ASSETS:		

Goodwill and other intangible assets, net	4,470,827	4,478,190
Deferred income taxes	--	47,315
Other assets	51,449	58,102
	4,522,276	4,583,607
TOTAL ASSETS	$ 10,472,759	$ 10,116,727

LIABILITIES AND SHAREHOLDERS' EQUITY

CURRENT LIABILITIES:		
Bank line of credit	$ 2,247,606	$ 1,779,862
Short-term debt and current maturities of long-term debt	46,215	405,256
Accounts payable	1,977,660	1,340,257
Accrued expenses and other current liabilities	95,951	258,512
Income taxes payable	95,309	131,425
Accrued product warranty	250,000	250,000
Accrued expense - supplier	90,344	448,952
Dividends payable	--	699,919
Loan from investors	--	200,000
Loan from officer	255,000	280,000
Deferred revenue	165,401	196,234
Total Current Liabilities	5,223,486	5,990,417
OTHER LIABILITIES :		
Long-term debt, less current maturities	7,332	39,081
Loan from investors	400,000	400,000
Loan from officer	195,000	195,000
Total Other Liabilities	602,332	634,081
TOTAL LIABILITIES	5,825,818	6,624,498
COMMITMENTS AND CONTINGENCIES		
SHAREHOLDERS' EQUITY :		
Series A Convertible Preferred stock, $.001 par value, Authorized 1,000,000 shares; issued none in March, 547,500 in June	--	547
Common Stock, $.001 par value, Authorized 20,000,000 shares; issued 8,602,210 shares in March, 3,577,210 shares in June	8,603	3,578
Additional paid-in capital	6,131,526	5,109,343
Cost of 10,564 shares of common stock in treasury	(20,832)	(20,832)
Accumulated deficit	(1,472,356)	(1,600,407)
Total Shareholders' Equity	4,646,941	3,492,229
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 10,472,759	$ 10,116,727

See accompanying notes to condensed consolidated financial statements.

F-1

MEDIA SCIENCES INTERNATIONAL, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(UNAUDITED)

	Three Months Ended March 31		Nine Month March
	2004	2003	2004
NET SALES	$ 4,874,606	$ 3,665,763	$ 12,907,606
COST OF GOODS:			
Cost of sales, excluding depreciation	2,567,609	1,681,447	6,315,116
Depreciation	118,754	135,750	403,571
Total cost of goods	2,686,363	1,817,197	6,718,687
GROSS PROFIT	2,188,243	1,848,566	6,188,919
OTHER COSTS AND EXPENSES:			
Selling, general and administrative	1,817,619	1,356,297	4,606,442
Depreciation and amortization	61,909	65,886	191,495
Total other costs and expenses	1,879,528	1,422,183	4,797,937
INCOME FROM OPERATIONS	308,715	426,383	1,390,982
INTEREST EXPENSE, NET	95,298	101,043	296,506
INCOME BEFORE INCOME TAXES	213,417	325,340	1,094,476
INCOME TAXES (CREDITS) :			
Current	19,214	30,781	(25,797)
Deferred	66,152	100,855	463,587
Total income taxes	85,366	131,636	437,790
NET INCOME	128,051	193,704	656,686
PREFERRED STOCK DIVIDENDS AND CHARGE FOR INDUCED CONVERSION	--	157,406	2,071,230
NET INCOME (LOSS) APPLICABLE TO COMMON SHAREHOLDERS	$ 128,051	$ 36,298	$ (1,414,544)

BASIC WEIGHTED AVERAGE COMMON SHARES OUTSTANDING	8,602,210	3,577,210	5,252,210
DILUTED WEIGHTED AVERAGE COMMON SHARES OUTSTANDING	8,691,117	3,577,210	5,252,210
BASIC AND DILUTED NET INCOME (LOSS) APPLICABLE TO COMMON SHAREHOLDERS	$ 0.01	$ 0.01	$ (0.27)

See accompanying notes to condensed consolidated financial statements.

MEDIA SCIENCES INTERNATIONAL, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
NINE MONTHS ENDED MARCH 31, 2004
(UNAUDITED)

	Preferred Stock		Common Stock		Additional Paid-in	Treas
	Shares	Amount	Shares	Amount	Capital	Sto
BALANCES, JUNE 30, 2003	547,500	$ 547	3,577,210	$3,578	$ 5,109,343	$(20,
Issuance of common stock for preferred conversion	(547,500)	(547)	5,025,000	5,025	2,564,778	
Preferred stock Dividend, 11.5%	--	--	--	--	(1,542,595)	
Net income	--	--	--	--	--	
BALANCES, MARCH 31, 2004	--	$ --	8,602,210	$8,603	$ 6,131,526	$(20,

See accompanying notes to condensed consolidated financial statements.

MEDIA SCIENCES INTERNATIONAL, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

	Nine Months Ende March 31,	
	2004	200
CASH FLOWS FROM OPERATING ACTIVITIES :		
Net income	$ 656,686	$ 684

Adjustments to reconcile net income to net cash provided by (used in) operating activities :		
Depreciation and amortization	595,066	595
Deferred income taxes	463,587	354
Provision for bad debts	37,527	
Changes in operating assets and liabilities :		
Accounts receivable	(458,820)	(851
Inventories	(696,868)	131
Prepaid expenses and other current assets	(92,150)	(21
Other assets	6,653	(2
Accounts payable	637,403	(631
Income taxes payable	(124,299)	102
Accrued expenses and other current liabilities	(86,411)	60
Accrued product warranty	--	(250
Accrued expense - supplier	(358,608)	(197
Deferred revenue	(30,833)	(67
Net cash provided by (used in) operating activities	548,933	(93
CASH FLOWS FROM INVESTING ACTIVITIES :		
Purchases of property and equipment	(165,441)	(201
Purchase of intangible assets	--	(94
Net cash used in investing activities	(165,441)	(295
CASH FLOWS FROM FINANCING ACTIVITIES :		
Bank line of credit, net	467,744	90
Payments of debt	(390,790)	(140
Debt proceeds	--	361
Loan from officer	(25,000)	120
Payments on loans from investors	(200,000)	
Dividends paid	(152,375)	
Costs of issuance of common stock	(37,485)	
Net cash provided by (used in) financing activities	(337,906)	431
NET INCREASE IN CASH	45,586	41
CASH, BEGINNING OF PERIOD	66,467	42
CASH, END OF PERIOD	$ 112,053	$ 83
SUPPLEMENTAL CASH FLOW INFORMATION :		
Interest paid	$ 319,683	$ 263
Income taxes paid	$ 10,431	$
Issuance of common stock as dividend payment	$ 704,950	$ 43
Issuance of common stock for accrued interest on dividends	$ 11,851	$

See accompanying notes to condensed consolidated financial statements.

MEDIA SCIENCES INTERNATIONAL, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - BASIS OF PRESENTATION :

Our accounting and reporting policies conform to accounting principles generally accepted in the United States of America. Except for the June 30, 2003 consolidated balance sheet, the consolidated financial statements presented herein are unaudited but reflect all adjustments which, in our opinion, are necessary for the fair presentation of the consolidated financial position, results of operations and cash flows for the interim periods presented. All adjustments reflected in the interim consolidated financial statements are of a normal recurring nature. You should read these consolidated financial statements in conjunction with the consolidated financial statements and notes thereto and the report of independent accountants included elsewhere in this registration statement. The year-end consolidated balance sheet data was derived from audited financial statements, but does not include all disclosures required by accounting principles generally accepted in the United States of America. The results of operations for the three and nine months ended March 31, 2004 are not necessarily indicative of the results to be expected for the full year.

NOTE 2 - NATURE OF BUSINESS :

We are engaged in the business of manufacturing and distributing supplies for workgroup or business color printers. Our products include solid ink sticks, color toner cartridges and other consumable items. We distribute our products through an international network of dealers and distributors. We also sell directly to end-users through programs designed to foster our supplies business.

NOTE 3 - STOCK-BASED COMPENSATION PRO FORMA DISCLOSURE :

The Company follows the intrinsic value method of Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" (APB 25) and related interpretations in accounting for its employee stock options. FAS 123 permits a company to elect to follow the intrinsic value method of APB 25 rather than the alternative fair value accounting provided under FAS 123, but requires pro forma net income (loss) and earnings (loss) per share disclosures as well as various other disclosures. The Company has adopted the disclosure provisions required under Financial Accounting Standards Board Statement No. 148, "Accounting for Stock-Based Compensation - Transition and Disclosure" (FAS 148). Because the exercise price of the Company's stock options equals the market price of the underlying stock on the date of grant, no compensation expense was recognized under APB 25.

Pro forma information regarding net income (loss) and earnings (loss) per share is required by FAS 123 and FAS 148 and has been determined as if the Company had accounted for its employee stock options under the fair value method of FAS 123.

The fair value of options granted in fiscal 2004 and 2003 were estimated at the date of grant using a Black-Scholes option pricing model with the following weighted-average assumptions, respectively: risk-free interest rates of 3.83 to 6.0%, dividend yield of 0.0%, volatility of 74% in 2004 and 72% in 2003, and a weighted-average expected life of the options of five years.

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 input 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 measure of the fair value of its employee stock options.

MEDIA SCIENCES INTERNATIONAL, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

	Three Months Ended March 31, 2004	Three Months Ended March 31, 2003	Nin 2004
Net income as reported	$ 128,051	$ 193,704	$ 656
Less preferred stock dividends	--	157,406	2,071
Income (loss) applicable to common shareholders	128,051	36,298	(1,414
Stock-based employee compensation expense under fair value method, net of related tax effects	(13,204)	(7,201)	(30
Pro forma net income (loss)	$ 114,847	$ 29,097	$(1,444
Income (loss) per share:			
Basic and diluted, as reported	$ 0.01	$ 0.01	$ (
Basic and diluted, pro forma	$ 0.01	$ 0.01	$ (

NOTE 4 - BANK LINE OF CREDIT :

We have an agreement with a lender under which we can borrow up to $3,000,000 under a revolving line of credit, subject to availability of collateral. Borrowings bear interest at 1.75% over the lender's base rate, are payable on demand and are collateralized by all of the assets of the Company. As of March 31, 2004, $2,247,606 was outstanding under this line and the interest rate was 5.75%. The line of credit expires on October 31, 2006.

NOTE 5 - PREFERRED STOCK CONVERSION :

In November 2003, we initiated a voluntary Offer of Conversion, whereby preferred shareholders who accepted the offer waived their rights to unpaid dividends and interest on their preferred stock and they received ten shares of common stock for each preferred share tendered. 86% of the preferred shareholders tendered a total of 457,500, or 84% of the outstanding, Series A preferred shares. The balance of the Series A preferred shares (90,000) were automatically converted to common stock at the rate of five shares of common stock for each preferred share, pursuant to the terms of the amended Certificate of Designation, which amendment was approved by a majority of the preferred shareholders. Those preferred shareholders whose preferred shares were converted at the rate of five to one were paid their accrued and unpaid dividends.

MEDIA SCIENCES INTERNATIONAL, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The conversion of the preferred stock was accounted for according to EITF Topic No. D-42 as an Induced Conversion of Preferred Stock. Consequently the fair value of the securities (ten shares of common stock) issued over the fair value of the securities issuable pursuant to the original conversion terms (five shares of common stock) less the accrued dividends and interest given up by the shareholders was subtracted from net income to arrive at net loss applicable to common shareholders. The non-cash dividend included in the preferred stock dividends for the nine months ended March 31, 2004 was calculated as follows :

Fair value of securities issued (5,025,000 x $1.15)	$ 5,778,
Less :	
Fair value of securities issuable pursuant to the original conversion terms (547,500 x 5 x $1.15)	(3,148,
Value of accrued dividends waived	(704,
Value of accrued interest waived	(11,
Non-cash preferred stock dividend	$ 1,913,

NOTE 6 - EARNINGS (LOSS) PER SHARE

Basic earnings (loss) per share is computed using the weighted average number of shares outstanding. Diluted earnings per common share is computed using the weighted average number of shares outstanding adjusted for the incremental dilutive shares attributed to outstanding options and warrants to purchase common stock, and other potentially dilutive securities.

The following table sets forth the computation of basic and diluted earnings (loss) per share :

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2004	2003	2004	2003

Numerator :				
Income (loss) applicable to common shareholders - basic and diluted	$ 128,051	$ 36,298	$(1,414,544)	$ 212,0
Denominator :				
Denominator for basic earnings per share : Weighted average shares	8,602,210	3,577,210	5,252,210	3,561,9
Effect of dilutive securities - stock options and warrants	88,907	--	--	7
Denominator for diluted earnings per share	8,691,117	3,577,210	5,252,210	3,562,6
Earnings (loss) per share :				
Basic	$ 0.01	$ 0.01	$ (0.27)	$ 0.
Diluted	$ 0.01	$ 0.01	$ (0.27)	$ 0.

MEDIA SCIENCES INTERNATIONAL, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The following warrants and options to purchase common stock were excluded from the computation of diluted earnings (loss) per share for the three and nine months ended March 31, 2004 because they were anti-dilutive for those periods:

	Three Months Ended March 31, 2004	Three Months Ended March 31, 2003	Nine Months Ended March 31, 2004	Nine Months Ended March 31, 2003
Anti-dilutive warrants and options	2,727,373	3,382,979	2,426,873	3,388,235

The conversion of the Class A convertible preferred stock has been excluded from the computation of diluted earnings per share for the three and nine months ended March 31, 2004. Such conversion, when taking into account the additional income applicable to common shareholders generated by the elimination of the dividend, would be anti-dilutive.

NOTE 7 - RECALL AND WARRANTY EXPENSES:

The Company provides a warranty for all of its consumable supply products. The Company's warranty stipulates that the Company will pay reasonable and customary charges for the repair of a printer needing service as a result of using the Company's products. The Company estimates the costs that may be incurred and records a liability in the amount of such costs at the time product revenue is recognized.

Factors that may affect the warranty include the number of units shipped to customers, historical and anticipated rates of warranty claims and cost per claim. The Company periodically assesses the adequacy of its recorded warranty liability and adjusts the amount as necessary. These expenses are classified as selling, general and administrative costs.

Changes in accrued product warranty for the three and nine months ended March 31, 2004 and 2003 are as follows:

	Three Months Ended March 31, 2004	Three Months Ended March 31, 2003	
Warranty reserve at the beginning of the period	$ 250,000	$ 250,000	$
Warranties accrued during the period	390,000	280,000	
Warranties settled during the period	(390,000)	(280,000)	
Net change in warranty reserve	--	--	
Warranty reserve at March 31	$ 250,000	$ 250,000	$

In January 2002, the Company recalled all solid ink products manufactured between May 2001 and January 2002. It was discovered that the use of the Company's solid ink sticks manufactured during that time period could cause printer reliability issues. Management believes that it has resolved the problem. In addition, two independent test laboratories have tested the reliability of the Company's solid ink and have found no reliability issues associated with the use of the Company's solid ink products.

The Company has filed a claim under its umbrella liability policy for the unreimbursed portion of the warranty expenses associated with the recall in January 2002. The insurance carrier has denied coverage under the policy, and filed suit for a declaratory judgement seeking to rescind the policy or in the alternative to have the court declare that the insurance company has no obligation to indemnify the Company for these claims. The Company has filed an answer and counterclaim in this matter.

Even though management believes that the recall is complete, the Company will continue to receive warranty claims associated with the recalled ink and other warranty expenses for products sold and not under the recall. While the Company believes that the reserve should be adequate to resolve the remaining claims, it is possible that the warranty claims may exceed the accrual and, therefore, differences, if any, will be expensed in future periods.

INDEPENDENT AUDITORS REPORT

To the Board of Directors and Shareholders of
Media Sciences International, Inc.

We have audited the accompanying consolidated balance sheets of Media Sciences International, Inc. and subsidiaries as of June 30, 2003 and 2002, and the related consolidated statements of operations, changes in shareholders equity and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Media Sciences International, Inc. and subsidiaries at June 30, 2003 and 2002, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

/s/ WISS & COMPANY, LLP
WISS & COMPANY, LLP

Livingston, New Jersey
August 6, 2003

**MEDIA SCIENCES INTERNATIONAL, INC.
AND SUBSIDIARIES**

CONSOLIDATED BALANCE SHEETS

ASSETS	June 30, 2003	June 30, 2002
CURRENT ASSETS:		
Cash and equivalents	$ 66,467	$ 42,180
Accounts receivable, less allowance for doubtful accounts of $35,000	1,841,060	1,257,270
Inventories	1,089,809	1,324,583
Deferred income taxes	1,000,000	1,000,000
Prepaid expenses and other current assets	173,050	59,846

Total Current Assets	4,170,386	3,683,879
PROPERTY AND EQUIPMENT, NET	1,362,734	1,778,497
OTHER ASSETS:		
Goodwill and other intangible assets, net	4,478,190	4,392,773
Deferred income taxes	47,315	500,000
Other assets	58,102	57,733
	4,583,607	4,950,506
	$ 10,116,727	$ 10,412,882

LIABILITIES AND SHAREHOLDERS' EQUITY

CURRENT LIABILITIES:		
Short-term debt	$ 2,185,118	$ 2,113,794
Accounts payable	1,340,257	2,311,790
Accrued expenses and other current liabilities	258,512	129,495
Income tax payable	131,425	--
Accrued product warranty	250,000	500,000
Accrued expense - supplier	448,952	395,153
Dividends payable	699,919	113,849
Loan from investors	200,000	535,242
Loan from officer	280,000	355,000
Deferred revenues	196,234	230,297
Total Current Liabilities	5,990,417	6,684,620
OTHER LIABILITIES:		
Long-term debt, less current maturities	39,081	194,336
Loan from investors	400,000	--
Loan from officer	195,000	--
Accrued expense - supplier	--	330,644
	634,081	524,980
COMMITMENTS AND CONTINGENCIES		
SHAREHOLDERS' EQUITY:		
Series A Convertible Preferred stock, $.001 par value, Authorized 1,000,000 shares; issued and outstanding 547,500 shares	547	547
Common stock, $.001 par value, Authorized 20,000,000 shares; issued and outstanding 3,577,210 shares in 2003 and 3,531,363 in 2002	3,578	3,532
Additional paid-in capital	5,109,343	5,065,833
Cost of 10,564 shares of common stock in treasury	(20,832)	(20,832)
Retained earnings (deficit)	(1,600,407)	(1,845,798)
Total Shareholders' Equity	3,492,229	3,203,282

	$ 10,116,727	$ 10,412,882

See accompanying notes to consolidated financial statements.

**MEDIA SCIENCES INTERNATIONAL, INC.
AND SUBSIDIARIES**

CONSOLIDATED STATEMENTS OF OPERATIONS

	Year Ended June 30,	
	2003	2002
NET SALES	$ 14,597,862	$ 13,844,318
COSTS OF GOODS :		
Cost of sales, excluding depreciation	6,642,710	6,793,527
Depreciation	532,403	447,313
Total cost of goods	7,175,113	7,240,840
GROSS PROFIT	7,422,749	6,603,478
OTHER COSTS AND EXPENSES :		
Selling, general and administrative	5,255,743	6,282,040
Depreciation and amortization	258,109	288,784
Total other costs and expenses	5,513,852	6,570,824
INCOME FROM OPERATIONS	1,908,897	32,654
INTEREST EXPENSE, NET	448,623	409,857
INCOME (LOSS) BEFORE INCOME TAXES (CREDITS)	1,460,274	(377,203)
INCOME TAXES (CREDITS)	585,258	(147,670)
NET INCOME (LOSS)	$ 875,016	$ (229,533)
PREFERRED STOCK DIVIDENDS	$ 629,625	$ 629,515
INCOME (LOSS) APPLICABLE TO COMMON SHAREHOLDERS	$ 245,391	$ (859,048)
BASIC WEIGHTED AVERAGE COMMON SHARES OUTSTANDING	3,565,748	3,484,057

DILUTED WEIGHTED AVERAGE COMMON SHARES OUTSTANDING	3,571,374	--
BASIC NET INCOME (LOSS) PER COMMON SHARE	$ 0.07	$ (0.25)
DILUTED NET INCOME (LOSS) PER COMMON SHARE	$ 0.07	$ --

See accompanying notes to consolidated financial statements.

MEDIA SCIENCES INTERNATIONAL, INC.
AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS EQUITY

	Common Stock Shares	Common Stock Amount	Preferred Stock Shares	Preferred Stock Amount	Treasury Stock	Additional Paid-in Capital
BALANCES, JUNE 30, 2001	3,477,805	$3,478	547,500	$ 547	$(20,832)	$5,599,991
YEAR ENDED JUNE 30, 2002:						
Issuance of stock for dividend payment	53,558	54	--	--	--	51,985
Issuance of warrants for services	--	--	--	--	--	43,372
Preferred stock dividend, 11.5%	--	--	--	--	--	(629,515)
Net loss	--	--	--	--	--	--
BALANCES, JUNE 30, 2002	3,531,363	3,532	547,500	547	(20,832)	5,065,833
YEAR ENDED JUNE 30, 2003:						
Issuance of stock for dividend payment	45,847	46	--	--	--	43,510
Preferred stock dividend, 11.5%	--	--	--	--	--	--
Net income	--	--	--	--	--	--
BALANCES, JUNE 30, 2003	3,577,210	$3,578	547,500	$ 547	$(20,832)	$5,109,343

See accompanying notes to consolidated financial statements.

**MEDIA SCIENCES INTERNATIONAL, INC.
AND SUBSIDIARIES**

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended June 30, 2003	Year Ended June 30, 2002
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	$ 875,016	$ (229,533)
Adjustments to reconcile net income (loss) to net cash flows from operating activities:		
Depreciation and amortization	790,511	739,711
Deferred income taxes	452,685	(152,000)
Provision for bad debts	118,220	77,896
Changes in operating assets and liabilities:		
Accounts receivable	(702,010)	470,106
Inventories	165,514	(230,152)
Prepaid expenses and other current assets	(113,204)	23,740
Other assets	(369)	7,525
Dividends payable	--	(56,749)
Accounts payable	(971,533)	921,825
Accrued expenses and other current liabilites	10,442	(11,699)
Accrued expense - supplier	(276,844)	(158,203)
Deferred revenues	(34,063)	(47,536)
Net cash flows from operating activities	314,365	1,354,931
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(296,296)	(461,142)
Purchase of intangible assets	(94,608)	--
Net cash flows from investing activities	(390,904)	(461,142)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Note payable to bank, net	90,947	(14,825)
Payments on short-term debt, net	(19,623)	(360,242)
Payments on long-term debt	(155,256)	(196,452)
Net advances from officer	120,000	30,000
	64,758	135,242
Preferred stock dividends	--	(577,476)
Net cash flows from financing activities	100,826	(983,753)
NET CHANGE IN CASH AND EQUIVALENTS	24,287	(89,964)
CASH AND EQUIVALENTS, BEGINNING OF YEAR	42,180	132,144
CASH AND EQUIVALENTS, END OF YEAR	$ 66,467	$ 42,180

See accompanying notes to consolidated financial statements.

MEDIA SCIENCES INTERNATIONAL, INC.
AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Continued)

	Year Ended June 30,	
	2003	2002
SUPPLEMENTAL CASH FLOW INFORMATION:		
Interest paid	$ 401,982	$ 413,825
Income taxes paid	$ 1,148	$ 11,130
Issuance of common stock as dividend payment	$ 43,556	$ 52,039
Acquisition of equipment by capital leases	$ --	$ 56,106
Issuance of warrants in connection with proceeds received on short - term borrowings	$ --	$ 43,372
Transfer of inventory to property and equipment	$ 69,260	$ 119,927

See accompanying notes to consolidated financial statements.

MEDIA SCIENCES INTERNATIONAL, INC.
AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - NATURE OF THE BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Nature of the Business Media Sciences International, Inc. and subsidiaries, collectively referred to as the Company , manufacture and distribute supplies for workgroup color printers. The Company s products include solid ink sticks and color toner cartridges. The Company distributes its products through an international network of dealers and distributors. The Company also sells directly to end users through programs designed to foster the supplies business. The Company has its corporate headquarters in New Jersey and has offices in Redmond, Washington.

Name Change On April 19, 2002, the Company s shareholders approved an amendment to its Certificate of Incorporation, changing the corporate name from Cadapult Graphic Systems, Inc. to Media Sciences International, Inc.

Change of Organizational Structure On April 19, 2002, the Company s shareholders voted to approve a structural change by agreement between Media Sciences International, Inc. and a newly formed, wholly owned New Jersey corporation named Cadapult Graphic Systems, Inc.

As a result of the change in corporate structure, Media Sciences International, Inc. is now organized with two operating subsidiaries: Media Sciences, Inc. and Cadapult Graphic Systems, Inc. Media Sciences International, Inc., as a parent corporation, does not have a present intent to engage in substantive independent business operations. The Company intends to conduct substantially all of its operations through subsidiaries.

Principles of Consolidation The consolidated financial statements include the accounts of Media Sciences International, Inc. and its subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation.

Estimates and Uncertainties 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 disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results, as determined at a later date, could differ from those estimates.

Revenue Recognition Revenue is recognized at the point of shipment for goods sold, and ratably through the duration of service contracts. Deferred revenue consists principally of billings on service contracts prior to rendering related services.

Cash Equivalents Cash equivalents include all highly liquid short-term investments purchased with original maturities of three months or less.

Concentration of Credit Risk The Company does not use any derivatives and its financial instruments that potentially subject the Company to concentration of credit risk consist primarily of cash and unsecured trade receivables. The Company maintains its cash balances in financial institutions which are insured by the Federal Deposit Insurance Corporation up to $100,000 each. At various times during the year, such balances may have exceeded the FDIC limit.

MEDIA SCIENCES INTERNATIONAL, INC.
AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Concentrations of credit risk with respect to all trade receivables are considered to be limited due to the number of customers comprising the Company s customer base. The Company performs ongoing credit evaluations of its customers financial condition and does not require collateral. Management feels that credit risk beyond the established allowance at June 30, 2003, is limited.

Financial Instruments Financial instruments include cash, accounts receivable, accounts payable, accrued expenses, and short-term and long-term debt. The amounts reported for financial instruments are considered to be reasonable approximations of their fair values. The fair value estimates presented here in were based on market or other information available to management. The use of different assumptions and/or estimation methodologies could have a material effect on the estimated fair value amounts.

Vendor Concentrations Purchases in 2003 from one vendor amounted to 11% of Cost of Goods Sold.

Major Customers Sales to one customer as a percentage of total sales amounted to 11% and 12% in 2003 and 2002, respectively.

Inventories Inventories are stated at the lower of cost or market, with costs being determined on a first-in, first-out method. Work-in-process and finished goods include material costs, labor costs and manufacturing overhead. The Company evaluates its inventories periodically to identify excess, slow-moving and obsolete inventories and assess reserve adequacy. At June 30, 2003 and 2002, no reserve was deemed necessary.

Property and Equipment Property and equipment are stated at cost. The Company provides for depreciation using straight-line and accelerated methods by charges to income at rates based upon the recovery periods of 3 to 7 years for furniture, equipment, automobiles, tooling and molds over the useful lives or the lease term, if shorter, for leasehold improvements.

Goodwill and Other Intangible Assets In July 2001, the Company elected early adoption of Statement of Financial Accounting Standards No. 141, Business Combinations, and No. 142, Goodwill and Other Intangible Assets (SFAS 141 and 142). See New Accounting Pronouncements below.

As of July 1, 2001, the Company identified those intangible assets that remain separable under the provisions of SFAS 141 and those that are to be included in goodwill. On the date of adoption and at least annually, SFAS 142 requires testing of goodwill for impairment. No indications of goodwill impairment were found during fiscal 2003.

In addition, the Company assesses long-lived assets, including intangible assets, for impairment whenever events or circumstances indicate that the carrying value may not be fully recoverable by comparing the carrying value to future undiscounted cash flows. To the extent that there is impairment, analysis is performed based on several criteria, including, but not limited to, revenue trends, discounted operating cash flows and other operating factors to determine the impairment amount.

Advertising Expense The Company accounts for advertising costs in accordance with Statement of Position 93-7, Reporting on Advertising Costs . Advertising expenses are deferred until first use of the advertising. Deferred advertising costs at June 30, 2003 and 2002 totaled approximately $128,000 and $32,000, respectively. Advertising expenses for the years ended June 30, 2003 and 2002 totaled approximately $400,000 and $370,000, respectively.

F2-8

MEDIA SCIENCES INTERNATIONAL, INC.
AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Income Taxes Deferred income taxes reflect the net tax effect of temporary differences between financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss carry forwards.

Employee Benefit Plan The Company has a 401(k) savings/retirement plan for all of its eligible employees. The plan allows for employee contributions to be matched by the Company. Contributions made by the Company for the years ended June 30, 2003 and 2002 were $23,000 and $22,500, respectively.

Earnings (Loss) Per Share Basic earnings (loss) per share is based upon net income (loss) less preferred dividends divided by the weighted average number of common shares outstanding during the period. Diluted earnings per share is based on the weighted average number of shares outstanding adjusted for the incremental shares attributable to outstanding options, dilutive securities, warrants and other potentially dilutive securities.

Stock Options The Company accounts for stock option grants using the intrinsic value based method prescribed by APB Opinion No. 25. Since the exercise price equaled or exceeded the estimated fair value of the underlying shares at the date of grant, no compensation expense was recognized in 2003 and 2002 for stock option grants. The Company provides additional proforma disclosure of the accounting impact as if it had adopted fair value treatment (see Note 7).

Recent Accounting Pronouncements In November 2002, the FASB issued FASB Interpretation (FIN) No. 45, Guarantor s Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others. FIN 45 requires that a liability be recorded in the guarantor s balance sheet upon issuance of a guarantee. In addition, FIN 45 requires disclosures about the guarantees that an entity has issued, including a rollforward of the entity s product warranty liabilities. The Company does not expect FIN 45 to have a material impact on its financial position, results of operations or cash flows.

In December 2002, the FASB issued SFAS No. 148, Accounting for Stock- Based Compensation, Transition and Disclosure. SFAS No. 148 provides alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. SFAS No. 148 also requires that disclosures of the pro forma effect of using the fair value method of accounting for stock-based employee compensation be displayed more prominently and in tabular format. Additionally, SFAS No. 148 requires disclosure of the pro forma effect in interim financial statements. The transition and annual disclosure requirements are effective for our 2003 fiscal year. The interim disclosure requirements are now effective. The Company does not expect the adoption of SFAS No. 148 to have a material impact on its financial position, results of operations or cash flows.

In January 2003, the FASB issued FIN 46, Consolidation of Variable Interest Entities. This Interpretation clarifies the application of Accounting Research Bulletin No. 51, Consolidated Financial Statements, to certain entities in which equity investors do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. FIN 46 applies to variable interest entities created after January 31, 2003, and is effective as of July 31, 2003 for variable interest entities created prior to February 1, 2003. The Company does not expect the adoption of FIN 46 to have a material effect on its financial position, results of operations or cash flows.

MEDIA SCIENCES INTERNATIONAL, INC.
AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

In April 2003, the FASB issued SFAS No. 149, Amendment of Statement 133 on Derivative Instruments and Hedging Activities. This statement amends SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities, for implementation issues related to the definition of a derivative and other FASB projects related to financial instruments. SFAS No. 149 requires that contracts with comparable characteristics be accounted for in a similar fashion. SFAS No. 149 applies prospectively to contracts entered into or modified after June 30, 2003 and for hedging relationships designated after June 30, 2003. The Company does not expect the adoption of SFAS No. 149 to have a material effect on its financial position, results of operations or cash flows.

In May 2003, the FASB issued SFAS No. 150, Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity. This statement establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. SFAS No. 150 requires that financial instruments within the scope of SFAS No. 150 be classified as a liability or an asset. SFAS No. 150 is effective for all financial instruments entered into after May 31, 2003 and otherwise, the beginning of the first interim period after June 15, 2003. The Company does not expect the adoption of SFAS No. 150 to have a material effect on its financial position, results of operations or cash flows.

NOTE 2 INVENTORIES:

Inventories are summarized as follows:

	June 30, 2003	June 30, 2002
Raw materials	$ 124,429	$ 85,058
Finished goods	965,380	1,239,525
	$1,089,809	$1,324,583

NOTE 3 PROPERTY AND EQUIPMENT:

Property and equipment are summarized as follows:

	June 30, 2003	June 30, 2002
Equipment	$1,361,238	$1,606,123

Equipment at customer location	951,109	774,102
Furniture and fixtures	329,510	472,819
Automobiles	52,035	91,415
Leasehold improvements	223,664	242,289
Tooling and molds	647,751	579,699
	3,565,307	3,766,447
Less: Accumulated depreciation and amortization	2,202,573	1,987,950
	$1,362,734	$1,778,497

MEDIA SCIENCES INTERNATIONAL, INC.
AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 4 GOODWILL AND OTHER INTANGIBLE ASSETS:

Goodwill and other intangible assets are summarized as follows:

	Life (Years)	June 30, 2003	June 30, 2002
Goodwill	--	$4,986,030	$4,891,421
Other	1-5	46,000	97,000
		5,032,030	4,988,421
Less: Accumulated amortization		553,840	595,648
		$4,478,190	$4,392,773

Intangible asset amortization expense for the fiscal year 2003 was $9,192. The components of other intangible assets include a covenant not to compete associated with an acquisition and two acquired URLs. The value of our other intangible assets is $46,000 less accumulated amortization of $31,879 at June 30, 2003 and $97,000 less accumulated amortization of $55,793 at June 30, 2002.

During the year ended June 30, 2003, $94,608 of goodwill related to the acquisition of substantially all of the assets of UltraHue, Inc. on December 31, 2001 was recorded, and no goodwill was impaired or written off. As of June 30, 2003, goodwill amounted to $4,986,030, less accumulated amortization of $521,962.

Other intangible assets are subject to amortization. During the fiscal year 2003, the Company acquired no additional intangible assets.

NOTE 5 DEBT:

The Company s borrowings consisted of the following:

June 30,

	2003	2002
Short-term debt:		
Revolving line-of-credit with bank	$1,779,862	$1,688,915
Note payable relating to acquisition of UltraHue	250,000	183,904
Note payable to officer	280,000	355,000
Notes payable to investors	200,000	535,242
Current maturities of long-term debt	155,256	240,975
	$2,665,118	$3,004,036
Long-term debt:		
Long-term debt, less current maturities	$ 39,081	$ 194,336
Note payable to officer	195,000	--
Note payable to investors	400,000	--
	$ 634,081	$ 194,336

MEDIA SCIENCES INTERNATIONAL, INC.
AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The Company has an agreement with a bank under which it can borrow up to $3,000,000 under a revolving line-of-credit, subject to availability of collateral. Borrowings bear interest at 1.75% over the bank s base rate, are payable on demand and are collateralized by all assets of the Company. The line-of-credit expires on October 31, 2006.

The note payable relating to acquisition of UltraHue, Inc. bears interest at a rate of 13% per annum and is due on demand.

Between August 2000 and September 2003, the Company borrowed an aggregate of $450,000 from its President. The funds were used for general corporate purposes. The debt is structured through two notes payable. One note in the amount of $255,000 bears an interest rate of 10% per annum and is payable in monthly installments of interest only through May 2004. The second note, in the amount of $195,000 bears an interest rate of 20% per annum and is payable in monthly installments of interest only through May 2005.

Long-term debt consists of notes payable to various individuals in the aggregate of $400,000, bearing 20% interest rates, and payable in quarterly installments of interest only through June of 2005. In addition, long-term debt includes $195,000 payable to our President as described above, and various capital leases, totaling $186,470. The capital leases bear interest rates of between 10% and 14% per annum and mature through June 30, 2005 (Note 8).

During November and December 2002, the Company borrowed an aggregate of $200,000 from several individuals. These notes are payable during December 2003 and bear interest at a rate of 20-23% per annum.

Long-term debt at June 30, 2003 matures as follows:

Year Ending June 30,

2004	155,235
2005	634,081
	$ 789,337

NOTE 6 INCOME TAXES:

The components of the income tax expense (credit) are summarized as follows:

	Year Ended June 30,	
	2003	2002
Current:		
Federal	$ --	$ --
State	132,573	4,330
Total Current	132,573	4,330
Deferred:		
Federal	452,685	(122,000)
State	--	(30,000)
Total Deferred	452,685	(152,000)
Income Tax Expense (Credit)	$ 585,258	$ (147,670)

MEDIA SCIENCES INTERNATIONAL, INC.
AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The Company recognizes deferred tax assets, net of applicable reserves, related to net operating loss carry forwards and certain temporary differences. The Company is required to recognize a future tax benefit to the extent that realization of such benefit is more likely than not. Otherwise, a valuation allowance is applied. At June 30, 2003, the Company believes that the more likely than not criteria have been met, and accordingly, the Company has recorded a deferred tax asset to recognize a future tax benefit.

The Company has available federal net operating loss carry forwards of approximately $3,000,000, which expire through 2022.

A reconciliation of income tax expense (benefit) provided at the federal statutory rate (34%) to income tax expense (benefit) is as follows:

	Year Ended June 30,	
	2003	2002

Income tax expense (benefit) computed at federal statutory rate	$ 496,493	$ (129,000)
State income taxes (net of federal benefit)	87,617	(23,000)
Other	1,148	4,330
	$ 585,258	$ (147,670)

Significant components of the Company s deferred tax assets are as follows:

	Year Ended June 30,	
	2003	2002
Net operating loss carryforwards	$ 1,200,000	$ 1,080,000
Accruals and reserves	(152,685)	420,000
Total deferred tax assets	$ 1,047,315	$ 1,500,000

F2-13

MEDIA SCIENCES INTERNATIONAL, INC.
AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 7 SHAREHOLDERS EQUITY:

a) Stock Compensation Plan:

The Company has an incentive stock option (the 1998 Plan), pursuant to which 500,000 shares of common stock have been reserved. The stock options (which may be incentive stock options within the meaning of Section 422 of the Internal Revenue Code of 1986, as amended) entitle the holder to purchase shares of the Company s common stock for up to ten years from the date of grant (five years for persons owning more than 10 percent of the total combined voting power of the Company) at a price not less than the fair market value (110% of fair market value for persons owning more than 10% of the combined voting power of the Company) of the common stock on the date of grant. In general, any employee, director, officer or exclusive agent of, advisor or consultant to, the Company or a related entity, is eligible to participate in the Plan. The stock options are nontransferable, except upon death.

Share option activity for the Plan since July 1, 2001, follows:

	Outstanding	Weighted Average Exercise Price
Balance at July 1, 2001	273,726	$2.03

Year ended June 30, 2002:		
Granted	37,502	1.82
Exercised	--	--
Cancelled	(6,500)	2.26
Balance at June 30, 2002	304,728	2.00
Year ended June 30, 2003:		
Granted	98,401	0.57
Exercised	--	--
Cancelled	(64,723)	1.36
Balance at June 30, 2003	338,406	$1.70

MEDIA SCIENCES INTERNATIONAL, INC.
AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The following table summarizes information about outstanding and exercisable options at June 30, 2003:

Options Outstanding				Options Exercisable	
Range of Exercise Prices	Number Outstanding	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life-Years	Number Exercisable	Weighted Average Exercise Price
$0.43 to $0.65	94,901	$0.57	9.54	45,000	$0.54
$1.00 to $2.00	140,355	1.71	5.97	133,687	1.71
$2.01 to $4.00	103,150	2.74	6.44	103,150	2.74
	338,406	$1.70	7.11	281,837	$1.90

Non Plan Options:

During the year ended June 30, 2003, the Company granted its President five-year stock options to purchase up to 500,000 shares and are exercisable at $1.00 per share and expire in June 2008. Options to purchase 250,000 shares vested immediately and Options to purchase an additional 250,000 shares vest ratably over the period July 1, 2003 through June 30, 2005.

During the year ended June 30, 1999, the Company granted two employees five-year stock options to purchase up to 100,000 shares each, which vested upon the Company attaining certain specified milestones and are exercisable at $1.25

per share and expire in March 2004. A total of 200,000 options are vested at June 30, 2003.

In December 1999, the Company granted two employees five year stock options to purchase up to 50,001 shares each which vested ratably over three years, and are exercisable at $1.27 per share and expire in December 2004. A total of 100,002 options are vested at June 30, 2003.

During the year ended June 30, 2001, the Company granted an employee five year stock options to purchase up to 100,000 shares of which 100,000 were vested as of June 30, 2003. The options are exercisable at $1.25 per share and expire in June 2006.

During the year ended June 30, 2003, the Company granted five employees five-year stock options to purchase up to 25,000 shares each, which vest on April 6, 2004 and are exercisable at $0.50 per share.

MEDIA SCIENCES INTERNATIONAL, INC.
AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Proforma Disclosure:

The Company follows the intrinsic method of Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees (APB 25) and related interpretations in accounting for its employee stock options because, as discussed below, Financial Accounting Standards Board Statement No. 123, Accounting for Stock-Based Compensation (FAS 123) requires use of option valuation models that were not developed for use in valuing employee stock options. FAS 123 permits a company to elect to follow the intrinsic method of APB 25 rather than the alternative fair value accounting provided under FAS 123, but requires pro forma net income and earnings per share disclosures as well as various other disclosures not required under APB 123 for companies following APB 25. The Company has adopted the disclosure provisions required under Financial Accounting Standards Board Statement No. 148, Accounting for Stock-Based Compensation Transition and Disclosure (FAS 148). Under APB 25, because the exercise price of the Company s stock options equals the market price of the underlying stock on the date of grant, no compensation expense was recognized.

Pro forma information regarding net income and earnings per share is required by FAS 123 and FAS 148, and has been determined as if the Company had accounted for its employee stock options under the fair value method of that Statement.

The fair value of options granted in 2003 and 2002 were estimated at the date of grant using a Black-Scholes option pricing model with the following weighted-average assumptions, respectively: risk-free interest rates of 6.0%, dividend yield of 0.0%, volatility factors of the expected market price of the Company s common stock of 74% in 2003 and 72% in 2002, and a weighted-average expected life of the options of five years.

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 input 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 measure of the fair value of its employee stock options.

**MEDIA SCIENCES INTERNATIONAL, INC.
AND SUBSIDIARIES**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

	Fiscal Year Ended June 30, 2003	Fiscal Year Ended June 30, 2002
Net income (loss), as reported	$ 245,391	$(859,048)
Stock-based employee compensation expense under fair value method, net of related tax effects	$ (64,599)	$ (21,633)
Pro forma net income (loss)	$ 180,792	$(880,681)
Income/(Loss) per share:		
Basic, as reported	$ 0.07	$ (0.25)
Basic, pro forma	$ 0.05	$ (0.25)
Diluted per share, as reported	$ 0.07	$ --
Diluted per share, pro forma	$ 0.05	$ --

b) Common Stock:

During the year ended June 30, 2002, the Company issued 53,558 shares of its common stock valued at $52,039 in lieu of cash payments for dividends on its Series A Preferred Stock.

During the year ended June 30, 2003, the Company issued 45,847 shares of its common stock valued at $43,556 in lieu of cash payments for dividends on its Series A Preferred Stock.

c) Warrants:

In August 1998 and February 1999, the Company issued 105,000 warrants to purchase its common stock between $4.00-$5.00 per share in exchange for legal services which were subsequently capitalized. The warrants, which had a value of $20,510, using the Black-Scholes pricing model, expire through February 15, 2004.

In October 1999, the Company issued 30,000 warrants to purchase its common stock at between $3.00 - $4.00 per share in exchange for investor relation services which were subsequently capitalized. The warrants, which were valued at approximately $100,000 using the Black-Scholes pricing model, were recognized as a cost of issuance of the Series A Preferred shares and expire on September 29, 2004.

In June 2001, the Company issued 200,000 warrants to purchase its common stock at $1.00 per share in consideration for consulting services. The warrants, which were valued at $25,000, expire on May 31, 2006.

In June 2002, the Company issued 87,500 warrants to purchase its common stock at $1.00 per share in connection with its notes payable. The warrants were valued at $43,372 and expire in June 2007.

MEDIA SCIENCES INTERNATIONAL, INC.
AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

d) Preferred Stock:

The Company s Certificate of Incorporation authorizes the issuance of up to 5,000,000 shares of Preferred Stock. The Board of Directors is authorized to issue shares of Preferred Stock from time to time in one or more series and to establish and designate any such series and to fix the number of shares and the relative conversion rights, voting rights, terms of redemption and liquidation. In December 1999, the Board authorized the issuance of up to 1,000,000 shares of Series A Preferred Stock.

On March 10, 2000, the Company completed a private placement wherein it sold 550,000 units for $10.00 per unit representing 550,000 shares of its Series A Preferred Stock and 1,100,000 warrants exercisable for five years to purchase one share of common stock for $4.50 per share. Net proceeds received from the sale totaled $4,566,549.

Dividends on the Series A Preferred Stock accrue at a rate of 11.5% per annum and are payable quarterly. Each Series A share was convertible at the option of the holder at a rate of 3.077 shares of common stock for one Series A share. In December 2001, the rate of conversion of the Class A Preferred Stock changed to five shares of common stock for one Series A Share of Preferred. The conversion price will adjust again in December 2003. The conversion price cannot be less than $2.00 per share.

The Company has the right to call the Series A shares at $15.00 per share, at any time. Holders have the right to convert upon receipt of the call notice.

In connection with this private placement, the placement agent received a commission and non-accountable expense allowance equal to 13% of the proceeds of the offering, five year warrants to purchase up to 236,500 shares of the Company s common stock at $1.65 per share and up to 590,000 shares of the Company s common stock at $3.75 per share. The value of the warrants was recognized as a cost of issuance of the Series A shares.

During the year ended June 30, 2001, holders of 2,500 shares of Series A Preferred Stock converted the Series A Preferred Stock into 7,692 shares of the Company s common stock.

e) Treasury Stock:

During the year ended June 30, 2001, the Company purchased 10,564 shares of its common stock, valued at $20,832, in connection with the exercise of employee stock options.

MEDIA SCIENCES INTERNATIONAL, INC.
AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 8 COMMITMENTS AND CONTINGENCIES:

Leases The Company leases its premises under lease agreements which expire through 2011 and equipment under operating leases that expire through 2006. As of June 30, 2003, the Company s property under capital leases, which is included in property and equipment, has a cost of $710,873 and accumulated depreciation of $486,798 and consists of printers placed at customer locations and manufacturing equipment.

Future minimum lease payments are as follows:

Year Ending June 30,	Capital Leases Included in Property and Equipment	Operating Leases
2004	198,456	467,169
2005	40,089	328,839
2006	--	309,931
2007	--	259,947
2008 and thereafter		1,018,126
Total future minimum lease payments	238,545	$2,384,012
Less: Amount representing interest	52,075	
Present value of minimum lease payments (Note 5)	186,470	
Less: Current maturities	149,001	
Non-current	$ 37,469	

Rent expense amounted to $267,683 and $268,579 for the years ended June 30, 2003 and 2002, respectively.

Employment Agreement On July 1, 2003, the Company entered into a five-year employment agreement with its President for a base salary of $200,000 per annum subject to certain adjustments.

Litigation The Company is a defendant in legal proceedings arising in the ordinary course of its business activities. Although the ultimate disposition of these proceedings is not presently determinable, management does not expect the outcome to have a material adverse effect on the Company s financial position.

NOTE 9 SUPPLIER AGREEMENT:

On May 4, 2001, the Company entered into an agreement with a supplier, whereby, beginning May 1, 2001, the Company was required to pay $.50 per ink stick sold, increasing to $.75 on May 1, 2002, $1.00 on May 1, 2003 and $1.50 on May 1, 2004. The present value, $884,000, of the maximum commitment under the agreement, $1,000,000, was recorded as a liability at June 30, 2001. At June 30, 2003, the balance owed by the Company was $448,952.

NOTE 10 RECALL AND WARRANTY EXPENSES:

Media Sciences provides a warranty for all of its consumable supply products. The Company s warranty stipulates that the Company will pay reasonable and customary charges for the repair of a printer needing service as a result of using the Company s products. The Company estimates the costs that may be incurred and records a liability in the amount of such costs at the time product revenue is recognized. Factors that may affect the warranty include the number of units shipped to customers, historical and anticipated rates of warranty claims and cost per claim. The Company periodically assesses the adequacy of its recorded warranty liability and adjusts the amount as necessary. These expenses are classified as Selling, General and Administrative costs.

In January 2002, the Company recalled all solid ink products manufactured between May 2001 and January 2002. It was discovered that the use of the Company s solid ink sticks manufactured during that time period could cause printer reliability issues. Management believes that it has resolved the problem. In addition, two independent test laboratories have tested the reliability of the Company s solid ink and have found no reliability issues associated with the use of the Company s solid ink products.

Changes in accrued product warranty during the years ended June 30, 2003 and 2002 are as follows:

	June 30, 2003	June 30, 2002
Warranty reserve at the beginning of the year	$ 500,000	$ 400,000
Warranties accrued during the period	1,329,263	2,932,723
Proceeds for product liability insurance	--	1,000,000
Warranties settled during the period	(1,579,263)	(3,832,723)
Net change in warranty reserve	$ (250,000)	$ 100,000
Warranty reserve at June 30,	$ 250,000	$ 500,000

The Company has filed a claim under its umbrella liability policy for the unreimbursed portion of the warranty expenses. The insurance carrier has not yet taken a coverage position on this claim.

Even though management believes that the recall is complete, the Company will continue to receive warranty claims associated with the recalled ink and other warranty expenses for products sold not under the recall. While the Company believes that the reserve should be adequate to resolve the remaining claims, it is possible that the warranty claims may exceed the accrual, and therefore be expensed in future periods.

NOTE 11 EARNINGS (LOSS) PER COMMON SHARE:

Basic earnings per common share is computed using the weighted average number of common shares outstanding. Diluted earnings per common share is computed using the weighted average number of shares outstanding as adjusted for the incremental shares attributed to outstanding options and warrants to purchase common stock , and other potentially dilutive securities.

The following table sets forth the computation of basic and diluted earnings per common share:

	Year Ended June 30, 2003	2002
Numerator:		
Income (loss) applicable to common shareholders - basic	$ 245,391	$ (859,048)
Income (loss) applicable to common shareholders - diluted	$ 245,391	$ (859,048)
Denominator:		
Denominator for basic earnings per common share:		
Weighted average shares	3,565,748	3,484,057
Effect of dilutive securities -		
Conversion of preferred stock to common	--	--
Stock options and warrants	5,626	--
Denominator for diluted earnings per common share	3,571,374	3,484,057
Earnings (loss) per common share:		
Basic	$ 0.07	$(0.25)
Diluted	$ 0.07	$ --

The conversion of the Series A convertible preferred stock has been excluded from the computation of diluted earnings per share for the year ended June 30, 2003. Such conversion, when taking into account the additional net income generated to the common shareholders by the elimination of the dividend, would have been anti-dilutive.

MEDIA SCIENCES INTERNATIONAL, INC.
AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The following warrants and options to purchase common stock were excluded from the computation of diluted earnings per share for the years ended June 30, 2003 because their exercise price was greater than the average market price of the common stock for those periods :

	Year Ended June 30, 2003	2002
Anti-dilutive warrants and options	3,260,839	--

NOTE 12 RELATED PARTY TRANSACTIONS:

Occasionally, the Company borrows funds from its President for general corporate purposes. At June 30, 2003 and 2002 the amount due to officer was $450,000 and $355,000, respectively (note 5).

F2-22

MEDIA SCIENCES INTERNATIONAL, INC.

1,450,000 SHARES OF COMMON STOCK

PROSPECTUS

[_________ __, 2004]

The information in this prospectus is not complete and may be changed. The selling stockholders may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and it is not a solicitation of an offer to buy these securities in any state where the offer or sale is not permitted.

PART II

INFORMATION NOT REQUIRED IN PROSPECTUS

ITEM 24. INDEMNIFICATION OF DIRECTORS AND OFFICERS.

Our Certificate of Incorporation provides that to the fullest extent permitted by the General Corporation Law of Delaware, including, without limitation, as provided in Section 102(b)(7) of the General Corporation Law of Delaware, as the same exists or may hereafter be amended, any of our director shall not be personally liable to us or our stockholders for monetary damages for breach of fiduciary duty as a director. Section 102(b)(7) of the Delaware General Corporation Law permits a corporation to provide in its certificate of incorporation that a director of the corporation shall not be personally liable to the corporation or its stockholders for monetary damages for breach of fiduciary duty as a director, except for liability:

- for any breach of the director's duty of loyalty to the corporation or its stockholders;
- for acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law;
- for payments of unlawful dividends or unlawful stock repurchases or redemptions; or
- for any transaction from which the director derived an improper personal benefit.

If the General Corporation Law of Delaware is amended to authorize corporate action further eliminating or limiting the personal liability of directors, then the liability of our directors shall be eliminated or limited to the fullest extent permitted by the General Corporation Law of Delaware, as so amended. Any repeal or modification of the provision of the Certificate of Incorporation by our stockholders shall not adversely affect any right or protection of our directors existing at the time of such repeal or modification or with respect to events occurring prior to such time.

Our Certificate of Incorporation and Bylaws further provide for the indemnification of our directors and officers to the fullest extent permitted by Section 145 of the Delaware General Corporation Law, including circumstances in which indemnification is otherwise discretionary. Insofar as indemnification for liabilities arising under the Securities Act may be permitted to our directors, officers and controlling persons pursuant to the foregoing provisions, or otherwise, we have been advised that in the opinion of the SEC, such indemnification is against public policy as expressed in the Securities Act and is, therefore, unenforceable.

Section 145 of the Delaware General Corporation Law provides that a corporation may indemnify directors and officers as well as other employees and individuals against expenses, including attorneys' fees, judgments, fines and amounts paid in settlement actually and reasonably incurred by such person in connection with any threatened, pending or completed actions, suits or proceedings in which such person is made a party by reason of such person being or having been a director, officer, employee of or agent to the registrant. The statute provides that it is not exclusive of other rights to which those seeking indemnification may be entitled under any by-law, agreement, vote of stockholders or disinterested directors or otherwise.

Our Certificate of Incorporation provides that we will indemnify any of our directors, officers, employees, or agents with respect to actions, suits, or proceedings relating to us and, subject to certain limitations, a director will not be personally liable for monetary damages for breach of his or her fiduciary duty.

Our directors or officers, or a person who at our request serves as a director, officer, employee or agent of another business entity, shall be indemnified by us against all expense, liability and loss, including attorneys' fees, judgments, fines, other expenses and losses, that is reasonably incurred or suffered in connection with any action, suit or proceeding or threatened action, suit or proceeding. For a person to receive indemnification under this provision, our Board of Directors must authorize the indemnification, and the person seeking indemnification must agree to repay us for all amounts advanced to him or her if a court of law ultimately determines that the person should not have been indemnified by us. A person who is entitled to indemnification may recover from us, and may sue us if we fail to make timely payment.

ITEM 25. OTHER EXPENSES OF ISSUANCE AND DISTRIBUTION

The following is a statement of the estimated expenses, other than underwriting discounts and commissions, to be incurred by us in connection with the distribution of the securities registered under this registration statement.

AMOUNT
TO BE PAID

SEC registration fee*	$ 330.69
Legal fees and expenses	$5,000.00
Blue Sky fees and expenses	$1,000.00
Accounting fees and expenses	$1,000.00
Transfer agent fees	$ 500.00
Printing expenses	$ 500.00
Total	$8,330.69

---
* Actual expenses.

We will pay all of the expenses listed above. The selling stockholders will not pay any of those expenses. The selling stockholders are responsible for any stock transfer taxes, transfer fees, and brokerage commissions or underwriting discounts and commissions.

ITEM 26. RECENT SALES OF UNREGISTERED SECURITIES

In March 2000, we completed a private placement of 550,000 units of our securities and raised gross proceeds of approximately $5,500,000. Each unit consisted of one share of convertible preferred stock and a warrant, exercisable for five years at $4.50 per share, to purchase two shares of common stock. From time to time, in lieu of cash dividends on the preferred stock, certain preferred shareholders elected to receive certain quarterly dividend payments through common stock issuances, valued at $0.95 to $1.10 per share. In our fiscal years 2001, 2002 and 2003, we issued an aggregate of 239,837 shares of common stock as dividends on preferred stock. We relied on an exemption from registration for a private transaction not involving a public distribution provided by Section 4(2) under the Securities Act.

On June 14, 2002, we issued short-term promissory notes aggregating $175,000 and warrants to purchase up to 87,500 shares of our common stock exercisable for five years at $1.00 per share to seven note holders: Paul Levin, Frank and Edna Blanco, Nathan D. Watters, Adam H. Watters, Mitchell Baker, Esther Baker, and Harold and Marsha Kugelman. The notes matured in December 2002 and bore simple interest at the rate of 12% per year. In December 2002, we repaid the $175,000 borrowed in June through cash principal payments of $75,000 and through the issuance of new, one-year notes aggregating $100,000 and bearing simple interest of 20%, payable quarterly. The note holders were persons who bear the following relationships with Media Sciences or with our officers and directors: Paul Levin is the father of Michael W. Levin, President and Chairman of Media Sciences; Frank and Edna Blanco are the parents of Frances Blanco, Vice President and a director of Media Sciences; Mitchell Baker is the son of Paul Baker, a director of Media Sciences; and Esther Baker is the wife of Paul Baker. Each of Michael W. Levin, Frances Blanco, and Paul Baker disclaims beneficial ownership of these notes and related warrants, except that Paul Baker may be deemed the beneficial owner of the $25,000 note and 12,500 warrants acquired by his wife as part of the transaction. We relied on an exemption from registration for a private transaction not involving a public distribution provided by Section 4(2) under the Securities Act.

On April 7, 2003, in transactions deemed exempt from registration pursuant to

Section 4(2) of the Securities Act, we issued to each of Duncan Huyler, Frances Blanco, Duncan Yates, Donald Gunn and Randy Hooker, all of whom are executive officers or senior management level personnel of the company, stock options to purchase 25,000 shares of common stock. The stock options vest on April 6, 2004 and are exercisable until April 5, 2008 at $0.50 per share. We relied on an exemption from registration for a private transaction not involving a public distribution provided by Section 4(2) under the Securities Act.

In June 2003, in a transaction deemed exempt from registration pursuant to Section 4(2) of the Securities Act, pursuant to an employment agreement effective as of July 1, 2003, we issued to Michael Levin, our Chief Executive Officer, stock options to purchase up to 500,000 shares of common stock, exercisable at $1.00 per share and expiring in June 2008. Options to purchase 250,000 shares vested immediately and options to purchase an additional 250,000 shares vest ratably over the period July 1, 2003 through June 30, 2005.

On December 31, 2003, we concluded an exchange offer with our preferred stockholders through which they had an opportunity to exchange each of their preferred shares for 10 shares of our common stock. Each preferred shareholder had acquired their preferred shares as part of a private placement of 550,000 units of our securities which we concluded in March 2000. In connection with the exchange offer, preferred shareholders tendered a total of 507,500 preferred shares, representing 93% of the outstanding preferred shares, in exchange for a total of 5,075,00 shares of common stock. We permitted an elderly former holder of 50,000 preferred shares who did not timely accept our preferred stock offer of conversion to exchange its preferred shares after the exchange offer expiration date. Preferred shareholders also voted upon an amendment to the preferred stock certificate of designation providing for automatic conversion if less than a majority of the originally issued preferred stock became outstanding. Preferred shareholders who accepted the offer waived their rights to unpaid dividends and interest on their preferred stock. Pursuant to the terms of the certificate of designation for our preferred stock, as amended, the other 40,000 preferred shares outstanding were converted into 200,000 shares of common stock and subsequently were paid accrued interest and dividends. We relied on an exemption from registration for a private transaction not involving a public distribution provided by Section 4(2) under the Securities Act.

On May 24, 2004, we issued to two of our management level employees, Frances Blanco and Duncan Huyler, options to purchase 100,000 shares of our common stock, of which 50,000 options vested on the grant date, and the remaining 50,000 options are subject to vesting over a three year period. The options are exercisable for ten years at $1.06 per share. We relied on an exemption from registration for a private transaction not involving a public distribution provided by Section 4(2) under the Securities Act

On June 30, 2004, in a transaction deemed exempt from registration pursuant to Section 4(2) of the Securities Act, we sold 1,000,000 shares of common stock to GFX Investments, LLC, an entity controlled by Richard L. Scott, for $1.25 million. In conjunction with the investment, we agreed to appoint a nominee of GFX Investments, Alan Bazaar, Vice President and Portfolio Manager for Richard L. Scott Investments, to our board of directors.

All of the above offerings and sales were deemed to be exempt under Section 4(2) of the Securities Act of 1933, as amended. No advertising or general solicitation was employed in offering the securities. The offerings and sales were made to a limited number of persons, all of whom were accredited investors, and transfer was restricted by the Company in accordance with the requirements of the Securities Act of 1933. In addition to representations by the above-referenced persons, we have made independent determinations that all of the above-referenced persons were accredited or sophisticated investors, and that they were capable of analyzing the merits and risks of their investment, and that they understood the speculative nature of their investment. Furthermore, all of the above-referenced persons were provided with access to our Securities and Exchange Commission filings.

Except as expressly set forth above, the individuals and entities to whom we issued securities as indicated in this section of the registration statement are unaffiliated with the Company.

ITEM 27. EXHIBITS

The following exhibits either are filed herewith or incorporated by reference to documents previously filed or will be filed by amendment, as indicated below:

Exhibit	Description
2	Agreement of Change in Corporate Structure (Incorporated by reference to Exhibit 2 of Quarterly Report on Form 10-QSB filed on May 15, 2002).
3(i)(1)	Certificate of Incorporation of Cadapult Graphic Systems, Inc., a Delaware corporation (Incorporated by reference to Exhibit 3.1 of Quarterly Report on Form 10-QSB/A filed on September 1, 1998).
3(i)(2)	Certificate of Amendment of Certificate of Incorporation of Cadapult Graphic Systems, Inc. (Incorporated by reference to Exhibit 3(i)(5) of Annual Report on Form 10-KSB filed on September 28, 1999).
3(i)(3)	Certificate of Incorporation of Media Sciences, Inc. (Incorporated by reference to Exhibit 3(i)(6) of Annual Report on Form 10-KSB filed on September 28, 1999).
3(i)(4)	Certificate of Amendment of Certificate of Incorporation of Cadapult Graphic Systems, Inc. (Incorporated by reference to Exhibit 3(i)(1) of Quarterly Report on Form 10-QSB filed on May 15, 2002).
3(i)(5)	Certificate of Incorporation of Cadapult Graphic Systems, Inc. (a New Jersey corporation) (Incorporated by reference to Exhibit 3(i)(2) of Quarterly Report on Form 10-QSB filed on May 15, 2002).
3(ii)	By-Laws (Incorporated by reference to Exhibit 3.2 of Quarterly Report on Form 10-QSB/A filed on September 1, 1998).
4.1	Specimen of common stock certificate (Incorporated by reference to Exhibit 4.7 of Form 8-A filed on August 8, 2000).
4.2	Specimen of preferred stock certificate (Incorporated by reference to Exhibit 4.8 of Form 8-A filed on August 8, 2000).

4.3	1998 Incentive Plan (Incentive Stock Option Plan) (Incorporated by reference to Exhibit 4.1 of Annual Report on Form 10-KSB filed on September 28, 1999).
4.4	Certificate of Designation (Incorporated by reference to Exhibit 4.5 of Registration Statement on Form SB-2, Registration Number 333-91005, originally filed on November 15, 1999).
4.5	Form of Warrant Certificate for Purchasers of Units (Incorporated by reference to Exhibit 4.6 of Registration Statement on Form SB-2, Registration Number 333-91005, originally filed on November 15, 1999).
4.6	Certificate of Amendment of Certificate of Designation of Series A Preferred Stock (Incorporated by reference to Exhibit 3(i)(6) of Annual Report on Form 10-KSB filed on September 15, 2003)
4.7	Certificate of Amendment of Certificate of Designation of Series A Preferred Stock (Incorporated by reference to Exhibit 4.7 of Registration Statement on Form SB-2, Registration Number 333-112340, filed on January 30, 2004).
5*	Opinion of Law Offices of Dan Brecher as to validity of Common Stock being offered.

10.1	Lease Agreement (Incorporated by reference to Exhibit 10.13 of Annual Report on Form 10-KSB filed on or about September 28, 2000).
10.2	Amended Employment Agreement of Duncan Huyler (Incorporated by reference to Exhibit 3.2 of Quarterly Report on Form 10-QSB filed on May 4, 1999).
10.3	Amended Employment Agreement of Frances Blanco (Incorporated by reference to Exhibit 3.3 of Quarterly Report on Form 10-QSB filed on May 4, 1999).
10.4	Agreement with Consonant Services Group (Incorporated by reference to Exhibit 10.6 of Registration Statement on Form SB-2, Registration Number 333-83668, filed on March 4, 2002).
10.5	Form of Warrant Agreement with Consonant Services Group (Incorporated by reference to Exhibit 10.11 of Registration Statement on Form SB-2, Registration Number 333-83668, filed on March 4, 2002).
10.6	Form of Amended Option Agreement with Frances Blanco (Incorporated by reference to Exhibit 10.8 of Registration Statement on Form SB-2, Registration Number 333-83668, filed on March 4, 2002).
10.7	Form of Amended Option Agreement with Duncan Huyler (Incorporated by reference to Exhibit 10.9 of Registration Statement on Form SB-2, Registration Number 333-83668, filed on March 4, 2002).
10.8	Form of Amended Option Agreement with Duncan Yates (Incorporated by reference to Exhibit 10.10 of Registration Statement on Form SB-2,

Registration Number 333-83668, filed on March 4, 2002).

10.9	Form of Amended Option Agreement with Donald Gunn (Incorporated by reference to Exhibit 10.12 of Registration Statement on Form SB-2, Registration Number 333-83668, filed on March 4, 2002).
10.10	Form of Amended Option Agreement with Randy Hooker (Incorporated by reference to Exhibit 10.13 of Registration Statement on Form SB-2, Registration Number 333-83668, filed on March 4, 2002).
10.11	Form of Promissory Note issued in June 2002 (Incorporated by reference to Exhibit 10.14 of Annual Report on Form 10-KSB filed on October 15, 2002).
10.12	Form of Warrants issued in June 2002 (Incorporated by reference to Exhibit 10.14 of Annual Report on Form 10-KSB filed on October 15, 2002).
10.13	Form of Employment Agreement with Michael W. Levin (Incorporated by reference to Exhibit 10.16 of Annual Report on Form 10-KSB filed on September 15, 2003).
10.14	Form of Loan and Security Agreement (Incorporated by reference to Exhibit 10.17 of Annual Report on Form 10-KSB filed on September 15, 2003).
10.15	Form of Option Agreement with Management issued April 2003 (Incorporated by reference to Exhibit 10.15 of Registration Statement on Form SB-2, Registration Number 333-112340, filed on January 30, 2004).
10.16*	Option Agreement with Frances Blanco issued May 2004
10.17*	Option Agreement with Duncan Huyler issued May 2004
10.18*	First Amendment to Loan and Security Agreement, dated June 11, 2004
10.19*	Term Note, dated June 11, 2004

10.20*	Common Stock Purchase Agreement, dated June 30, 2004
10.21*	Registration Rights Agreement, dated June 30, 2004
11*	Statement Concerning Computation of Per Share Earnings is hereby incorporated by reference to "Financial Statements", contained in this Form SB-2.
21*	Subsidiaries of the Registrant
23.1*	Consent of Wiss & Company LLP
23.2*	Consent of legal counsel (see Exhibit 5)

-----

* Filed herewith

II-7

ITEM 28. UNDERTAKINGS.

The undersigned registrant hereby undertakes that it will:

(1) File, during any period in which it offers or sells securities, a post-effective amendment to this registration statement to:

(i) Include any prospectus required by section 10(a)(3) of the Securities Act of 1933;

(ii) Reflect in the prospectus any facts or events which, individually or together, represent a fundamental change in the information set forth in the registration statement; and arising after the effective date of the registration statement (or the most recent post-effective amendment thereof) which, individually or in the aggregate, represent a fundamental change in the information set forth in the registration statement Notwithstanding the foregoing, any increase or decrease in volume of securities offered (if the total dollar value of securities offered would not exceed that which was registered) and any deviation from the low or high end of the estimated maximum offering range may be reflected in the form of prospectus filed with the Commission pursuant to Rule 424(b) (230.424(b) of this chapter) if, in the aggregate, the changes in volume and price represent no more than a 20% change in the maximum aggregate offering price set forth in the "Calculation of the Registration Fee" table in the effective registration statement.

(iii) Include any additional or changed material information on the plan of distribution

(2) For determining any liability under the Securities Act, treat each post-effective amendment as a new registration statement of the securities offered, and the offering of the securities at that time to be the initial bona fide offering.

(3) File a post-effective amendment to remove from registration any of the securities that remain unsold at the end of the offering.

(4) For determining any liability under the Securities Act, treat each post-effective amendment that contains a form of prospectus as a new registration statement for the securities offered in the registration statement, and that offering of the securities at that time as the initial bona fide offering of those securities.

Insofar as indemnification for liabilities arising under the Securities Act of 1933 (the "Act") may be permitted to directors, officers and controlling persons of the small business issuer pursuant to the foregoing provisions, or otherwise, the small business issuer has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Act and is, therefore, unenforceable.

In the event that a claim for indemnification against such liabilities (other than the payment by the registrant of expenses incurred or paid by a director, officer or controlling person of the registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Securities Act and will be governed by the final adjudication of such issue.

SIGNATURES

In accordance with the requirements of the Securities Act of 1933, the registrant certifies that it has reasonable grounds to believe that it meets all of the requirements for filing on Form SB-2 and authorized this Registration Statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Allendale, State of New Jersey, on July 30, 2004.

Dated: July 30, 2004

Media Sciences International, Inc.

By: /s/ Michael W. Levin

Michael W. Levin,
Chief Executive Officer and President

In accordance with the requirements of the Securities Act of 1933, this registration statement was signed by the following persons in the capacities and on the dates stated.

SIGNATURES	TITLE	DATE
/s/ Michael W. Levin Michael W. Levin	Chairman of the Board, President, and Chief Executive Officer	July 30, 2004
/s/ Denis Hawkins Denis Hawkins	Vice President, Controller (Principal Financial Officer) and Secretary	July 30, 2004
/s/ Frances Blanco Frances Blanco	Director, Vice President, and Treasurer	July 30, 2004
/s/ Donald Gunn Donald Gunn	Director	July 30, 2004
/s/ Paul C. Baker Paul C. Baker	Director	July 30, 2004
/s/ Alan L. Bazaar Alan L. Bazaar	Director	July 30, 2004

II-9

NOTE 12 RELATED PARTY TRANSACTIONS: