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Chromatics' stock fraud exposed.

On September 27, 1994 Chromatics Color Sciences International, Inc. (OTC Symbol: CCSI) (Price: $7.4375) entered into a Sales Agency Agreement with Janssen-Meyers Associates, L.P. ("Janssen-Meyers") to sell up to 2,700,000 shares of its common stock at a price up to 50% below the market. This offering represented almost one half of the company. At December 31, 1994 CCSI had approximately 5,555,850 fully diluted shares outstanding. Ultimately, Janssen-Meyers sold the 2.7 million shares in four different closings that occurred between January 6, 1995 and June 8, 1995. The shares were sold privately.

CCSI paid $770,200 in offering costs. Under a separate agreement dated January 6, 1995, the date of the first closing, CCSI also agreed to pay Janssen-Meyers a $75,000 consulting fee. In addition, management took a $262,400 cash payment, Janssen-Meyers a $150,000 fee, and $30,000 of demand registration expenses were paid from the net proceeds of the offering. A total of $1,287,600 in expenses was paid by CCSI from the offering proceeds. These payments equal an astonishing 39.5% of the net proceeds. This left CCSI with $3,260,200, or $1.21 per share in net proceeds.

In addition to the cash payments, CCSI also granted Janssen-Meyers a warrant to purchase one share of CCSI stock for every share Janssen-Meyers sold. As a result, upon the completion of the private placement, Janssen-Meyers owned 2.7 million warrants at no cost. These 2.7 million free warrants represented approximately 37.5% of the company at the time they were issued. In other words, in order to raise less than $3.3 million, CCSI made cash payments of $1.3 million and gave away the right to buy 37.5% of the company for free. Furthermore, Janssen-Meyers and its investors now controlled approximately 50% of CCSI's fully diluted shares.

CCSI agreed to pay these extraordinary cash fees and warrants to Janssen-Meyers in order to get the stock sold. This was necessary because there were no willing buyers for CCSI's stock based on its economic value. Based on the net proceeds of $1.21 per share, CCSI was valued at approximately $6.7 million at the time of the Janssen-Meyers offering. This value is before accounting for additional compensation in the form of free warrants to Janssen-Meyers. This additional selling cost significantly reduces CCSI's implied value well below $6.7 million.

The terms of the Janssen-Meyers offering prove CCSI had no asset or earnings potential to make its stock attractive to legitimate investors. Because CCSI had no other financing alternative, Janssen-Meyers was able to buy control cheaply, extract large cash fees and free ownership from CCSI. Janssen-Meyers got free stock in a thinly traded company with a promotional management. As a result, CCSI was converted from a defunct public shell to a "chop" stock. Normally, Janssen-Meyers would be forced to sell its "chop" stock to unsophisticated, small, retail investors. In the CCSI case, Janssen-Meyers found another outlet.

Michael Schonberg was one of the Janssen-Meyers clients that purchased shares in the CCSI private placement. He purchased 30,000 shares in the offering. On May 6, 1996 these shares were registered for sale. At the time he had already begun using investors' money deposited in the Dreyfus Aggressive Growth Fund and the Dreyfus Premier Aggressive Growth Fund ("Dreyfus Funds") to buy CCSI stock. Ultimately, Mr. Schonberg bought a total of

1,875,000 CCSI shares for the Dreyfus Funds. All of these purchases were executed after CCSI had been converted from a 3-year-old failed Investors Associates, Inc.'s initial public offering into a Janssen-Meyers in-house "chop" stock.

While Mr. Schonberg was buying stock, Janssen-Meyers was exercising its free CCSI warrants and selling stock. According to CCSI's most recent SEC filings, Janssen-Meyers exercised a total of at least 1,257,573 of these free warrants to purchase CCSI stock at $1.67 during the time that Mr. Schonberg bought for the Dreyfus Funds. During this period Dreyfus went from owning no CCSI shares to owning 13.6% of the company. Mr. Schonberg went so far as making CCSI his largest holding in one of his funds, accounting for 12.5% of the entire fund. During this same period Janssen-Meyers reduced its CCSI holdings from 37.5% to 8.9%.

Short selling involves a risk not associated with the purchase of stock including, but not only limited to, unlimited loss and stock borrowing risks. Additional information is available upon request.