

AMERICAN TONERSERV CORP.

FORM 10QSB (Quarterly Report of Financial Condition)

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**UNITED STATES SECURITIES AND EXCHANGE
COMMISSION**

WASHINGTON, DC 20549

FORM 10-QSB

Quarterly report pursuant section 13 or 15(d) of the Securities
Exchange Act of 1934

For the quarterly period ended September 30, 2007

Transition report pursuant section 13 or 15(d) of the Securities
Exchange Act of 1934

For the transition period from _____ to _____

Commission File Number: 333-120688

AMERICAN TONERSERV CORP.

(Exact name of small business issuer as specified in its charter)

Delaware
(State or Other Jurisdiction
of Incorporation)

33-0686105
(I.R.S. Employer Identification No.)

475 Aviation Blvd. Suite 100, Santa Rosa, CA 95403
(Address of Principal Executive Offices)

(800) 736-3515
(Registrant's Telephone Number, Including Area Code)

(Former Name, Former Address and Former Fiscal Year, if Changed Since Last
Report)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

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

State the shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date: On November 9, 2007 there were
46,772,283 Common Shares outstanding.

Transitional Small Business Disclosure Format (Check One): Yes No

AMERICAN TONERSERV CORP. AND SUBSIDIARY

FORM 10-QSB

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AMERICAN TONERSERV CORP. AND SUBSIDIARY
Condensed Consolidated Balance Sheet
(Unaudited)
September 30, 2007

ASSETS

Current assets:	
Cash and cash equivalents	\$ 75,007
Accounts receivable, net of allowance for doubtful accounts of \$35,224	604,778
Inventory	214,961
Prepaid expenses and other current assets	32,923
Deferred compensation	446,898

Total current assets	1,374,567
Customer lists, net	2,356,590
Goodwill	421,848
Property and equipment, net	108,800
Other assets	114,118

Total assets	\$ 4,375,923
	=====
LIABILITIES AND STOCKHOLDERS' DEFICIT	
Current liabilities:	
Accounts payable and accrued expenses	\$ 1,269,562
Shareholder advances	490,000
Notes payable - current portion (net of unamortized discount of \$155,459)	1,130,696
Convertible notes payable, related parties - current portion	562,500
Convertible notes payable - current portion	537,500
Deferred revenue	57,657

Total current liabilities	4,047,915

Long-term liabilities:	
Notes payable (net of unamortized discount of \$130,380)	306,600
Convertible notes payable	132,000
Warrant liabilities	41,495

Total long-term liabilities	480,095

Total liabilities	4,528,010

Commitments and contingencies	-----
Stockholders' equity:	
Convertible preferred stock, \$.001 par value; 50,000,000 Series C authorized shares; 1,952,856 shares issued and outstanding (liquidation preference of \$1,952,855)	1,953
Common stock; \$.001 par value; 450,000,000 shares authorized; 26,643,727 shares issued and outstanding	26,643
Additional paid-in capital	15,645,844
Accumulated deficit	(15,826,527)

Total stockholders' deficit	(152,087)

Total liabilities and stockholders' deficit	\$ 4,375,923
	=====

The accompanying notes form an integral part of these condensed consolidated financial statements.

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AMERICAN TONERSERV CORP. AND SUBSIDIARY
Condensed Consolidated Statements of Operations
(Unaudited)

	Three months ended September 30,		Nine months ended September 30,	
	2007	2006	2007	2006
	-----	-----	-----	-----
Revenues:				
Toner	\$ 964,909	\$ 140,057	\$ 2,292,436	\$ 153,005
Service	121,693	32,895	283,364	172,381
	-----	-----	-----	-----
Total revenues	1,086,602	172,952	2,575,800	325,386
	-----	-----	-----	-----
Cost of sales:				
Toner	638,392	94,934	1,456,932	101,729
Service	119,094	22,597	269,174	78,898
Inventory write-down	68,500	-	68,500	-
	-----	-----	-----	-----
Total cost of sales	825,986	117,531	1,794,606	180,627
	-----	-----	-----	-----
Gross profit	260,616	55,421	781,194	144,759
	-----	-----	-----	-----
Operating Expenses:				
Salaries and wages	398,776	305,758	1,161,649	362,133
Professional fees and services	418,965	243,356	1,149,485	315,805
Sales and marketing	44,327	6,094	211,663	15,875
General and administrative	389,113	64,424	876,937	148,304
Amortization of customer lists	97,981	11,503	232,222	11,503
	-----	-----	-----	-----
Total operating expenses	1,349,162	631,135	3,631,956	853,620
	-----	-----	-----	-----
Loss from operations	(1,088,546)	(575,714)	(2,850,762)	(708,861)
	-----	-----	-----	-----
Other income (expense):				
Fair value of convertible debt	(50,000)	(150,172)	(45,833)	(150,172)
Interest expense	(96,161)	(6,838)	(191,049)	(53,425)
Change in fair value of warrant liability	670	-	6,332	12,827
Gain on claims settlement	-	-	1,301	37,357
	-----	-----	-----	-----
Net loss	\$(1,234,037)	\$(732,724)	\$(3,080,011)	\$(862,274)
	=====	=====	=====	=====
Net loss per share:				
basic and diluted	\$ (0.05)	\$ (0.03)	\$ (0.13)	\$ (0.11)
	=====	=====	=====	=====
Weighted average number of shares outstanding:				
basic and diluted	23,676,336	21,337,097	23,420,257	7,702,283
	=====	=====	=====	=====

The accompanying notes form an integral part of these condensed consolidated financial statements.

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AMERICAN TONERSERV CORP. AND SUBSIDIARY
Condensed Consolidated Statements of Cash Flows
(Unaudited)

	Nine months ended September 30,	
	2007	2006
	-----	-----
Cash flow from operating activities:		
Net loss for the period	\$(3,080,011)	\$(862,274)
Adjustment to reconcile net loss to net cash used in operating activities:		
Depreciation	24,039	7,957
Amortization	232,222	13,250
Accretion of notes discount	80,582	-
Change in fair value of warrant liability	(6,332)	(12,827)
Fair value of convertible debt	45,833	150,172
Gain on claims settlement	(1,301)	(37,357)
Stock based compensation	811,065	353,876
Provision for doubtful accounts	23,000	-
Inventory write-down	68,500	-
Changes in operating assets and liabilities (excluding effect of Optima Technologies, LLC acquisition):		
Increase in assets:		
Accounts receivable	(527,295)	24,889
Inventory	(242,670)	-
Prepaid expenses and other current assets	(27,419)	(9,585)
Increase in liabilities:		
Accounts payable and accrued expenses	737,294	24,619
Deferred revenue	55,675	23,770
Net cash used in operating activities	(1,806,818)	(323,510)
Cash flow from investing activities:		
Purchase of Optima Technologies, LLC	(866,265)	-
Purchase of customer lists	-	(55,000)
Deferred acquisition costs	(107,008)	-
Purchase of property and equipment	(18,103)	(20,964)
Net cash used in investing activities	(991,376)	(75,964)
Cash flow from financing activities:		
Proceeds from issuance of preferred stock	2,575,000	235,000
Proceeds from issuance of convertible notes payable	400,000	375,000
Proceeds from shareholder advances	490,000	-
Proceeds from issuance of common stock	3,000	5,000
Payment of convertible notes	(50,000)	-
Payment of debt on customer list acquisitions	(716,019)	(24,065)
Net cash provided by financing activities	2,701,981	590,935
Net (decrease) increase in cash	(96,213)	191,461
Cash and cash equivalents, beginning of period	171,220	11,774
Cash and cash equivalents, end of period	\$ 75,007	\$ 203,235
	=====	=====

The accompanying notes form an integral part of these condensed consolidated financial statements.

AMERICAN TONERSERV CORP. AND SUBSIDIARY
Condensed Consolidated Statements of Cash Flows (Continued)
(Unaudited)

	Nine months ended September 30,	
	2007	2006
	-----	-----
Supplementary information:		
Interest paid	\$ 116,612	\$ 7,503
	=====	=====
Supplemental disclosure of noncash investing and financing activities:		

Series C Convertible Preferred stock issued to settle accounts payable	\$ 13,248	\$ -
	=====	=====
Series C Convertible Preferred stock issued on conversion of notes payable and interest with warrants	\$ -	\$ 832,884
	=====	=====
Issuance of notes payable for acquisition of customer lists	\$ 1,673,911	\$ -
	=====	=====
Deferred compensation on restricted stock and option grants to non-employees	\$ 397,922	\$ -
	=====	=====
Common stock issued to settle accounts payable	\$ 177,000	\$ -
	=====	=====
Reduction of purchase price of customer lists	\$ 213,126	\$ -
	=====	=====
Reduction in fair value of Optima convertible note	\$ 168,000	\$ -
	=====	=====

The accompanying notes form an integral part of these condensed consolidated financial statements.

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AMERICAN TONERSERV CORP. AND SUBSIDIARY

Notes to Unaudited Condensed Consolidated Financial Statements

1. Organization and Business Activity

Managed Maintenance Systems, Inc. was incorporated in the state of Delaware on May 30, 1995. During 1995, Managed Maintenance Systems, Inc. changed its name to "Q MATRIX, Inc." In January 2005, Q MATRIX, Inc. changed its name to AMERICAN TONERSERV CORP. The Company is a national distributor of compatible printer toner cartridges. American TonerServ Corp. services printers and other office equipment through its Preferred Provider Network. The Company is located in Santa Rosa, California and has operations in Port Richey, Florida.

2. Basis of Presentation and Summary of Significant Accounting Policies Unaudited Interim Financial Information:

The accompanying unaudited condensed consolidated financial statements reflect all adjustments, consisting only of normal recurring adjustments, which in the opinion of management are necessary to state fairly the financial position and the results of operations for the interim periods. The unaudited condensed consolidated financial statements have been prepared in accordance with the regulations of the Securities and Exchange Commission ("SEC"), but omit certain information and footnote disclosures necessary to present the statements in accordance with accounting principles generally accepted in the United States of America. Results of interim periods are not necessarily indicative of results for the entire year. These unaudited condensed financial statements should be read in conjunction with the American TonerServ Corp. Annual Report on Form 10-KSB for the year ended December 31, 2006.

Principles of Consolidation:

The consolidated financial statements include the accounts of American TonerServ Corp. and its wholly-owned subsidiary, Optima Technologies, LLC (collectively referred to as the "Company"). American TonerServ Corp. is the sole member of Optima Technologies, LLC which is a Delaware Limited Liability Company. Intercompany transactions and balances have been eliminated in consolidation.

Estimates:

The preparation of financial statements in conformity with accounting principals 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 revenue and expenses during the reporting period. Actual results could differ from those estimates.

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AMERICAN TONERSERV CORP. AND SUBSIDIARY

Notes to Unaudited Condensed Consolidated Financial Statements

2. Basis of Presentation and Summary of Significant Accounting Policies
(Continued)

Fair Value of Financial Instruments:

For certain of the Company's financial instruments, including accounts receivable, accounts payable and accrued expenses, the carrying amounts approximate fair value due to the short-term nature of these items. The amounts owed on notes payable also approximate fair value, because the interest rates and terms are offered to the Company at current market rates. On long term debt that is interest free or with below market interest rates an imputed interest rate is used to discount the liabilities.

The Black-Scholes-Merton model is used to value warrants and options. The conversion option, included as a component of convertible debt, is valued using an estimated Private Investment in a Public Entity ("PIPE") price equal to a 20% discount off the fair market value of the stock. The \$300,000 convertible note associated with the Purchase of Optima converts into 600,000 shares based on a share price of \$0.50 per share per the terms of the agreement. At September 30, 2007, this note was reduced to \$132,000 based on a fair value of \$0.22 per share.

Inventory and Inventory Reserve:

Inventory consists of finished goods which is primarily toner cartridges and service parts and is stated at the lower of cost or market determined by the first-in, first-out (FIFO) method. An inventory reserve has been set up to account for obsolete inventory. At September 30, 2007, this amount was \$68,500.

Property and Equipment:

Property and equipment is stated at cost less accumulated depreciation. Property and equipment is depreciated using the straight line method over estimated useful lives, which range from three to seven years. Leasehold improvements are depreciated on a straight line basis over the lesser of the lease term or estimated useful life.

Customer Lists:

The Company accounts for the purchase of customer lists at cost, net of discounts, if any, or fair value if acquired in a business combination, less accumulated amortization. Customer lists are amortized using the straight line method over an estimated useful life of seven years.

The Company uses debt to purchase the customer lists. The debt is interest free or below market rates so the Company discounts these notes using an imputed interest rate of 8-15%. The discounts on the notes are amortized over the term of the notes.

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AMERICAN TONERSERV CORP. AND SUBSIDIARY
Notes to Unaudited Condensed Consolidated Financial Statements

2. Basis of Presentation and Summary of Significant Accounting Policies
(Continued)

Long-Lived Assets:

The Company evaluates the carrying value of its long-lived assets when events or circumstance indicate the existence of a possible impairment, based on projected undiscounted cash flows, and recognizes impairment when such cash flows will be less than the carrying values. Measurement of the amounts of impairments, if any, is based upon the difference between carrying value and fair value of the long lived assets. In June 2007, management determined that its value of the Computech customer list should be reduced based on a modification to the original customer list purchase agreement. This agreement reduced the purchase price of the customer list by \$128,000. In August 2007, management determined that its value of the Laser Cartridge Recharging Services customer list should be reduced by \$85,126 based on a reduction of the estimated future amount of revenues generated by this list.

Revenue Recognition:

Remanufactured Toner Sales - Revenue for the resale of laser toner cartridges is recognized upon shipment of the toner cartridges to the customer. In the case where the toner cartridge is sold as a bundled product with equipment service included as part of the total purchase price, the combined revenue is segregated between the value of the cartridge and the service components. The cartridge portion is recognized upon shipment. The service component is deferred and recognized straight-line over the 90 day period (the maximum term of the service offering with each cartridge).

Time and Materials Maintenance Contracts - Revenue for equipment service calls initiated by the customer is billed based on actual time and materials. The revenue is recognized as the service is provided.

Full Service Maintenance Contracts - Revenue for fixed fee equipment service contracts are recognized on a straight-line basis over the life of the contract.

Deferred Revenue:

Contract revenue for full-service contracts is recognized by the straight line method over the life of the contract with the unearned portion shown as deferred revenue in the accompanying balance sheet.

Stock Based Compensation:

The Company has a stock incentive plan (the "Plan"), administered by the Board of Directors, which provides for the granting of options and shares of common stock to employees, officers, directors and other service providers of the Company. Options granted under the Plan generally are granted with an exercise price equal to the market value of a common share at the date of grant and typically vest over four years from the date of grant.

AMERICAN TONERSERV CORP. AND SUBSIDIARY
Notes to Unaudited Condensed Consolidated Financial Statements

2. Basis of Presentation and Summary of Significant Accounting Policies
(Continued)

Stock Based Compensation (Continued):

On April 19, 2007, the Board of Directors authorized a 1,600,000 increase in the plan to 10,000,000 shares, which was approved by a majority of the stockholders. The total number of shares authorized to be granted under the 2005 plan was 10,000,000 at September 30, 2007. The 1995 Stock Option Plan has expired but all options outstanding at that time continue in accordance with their respective terms. No new options will be granted under the 1995 Plan and there were 35,133 options outstanding under the 1995 Plan.

The estimated fair value of equity-based awards, less expected forfeitures, is amortized over the awards' vesting period on a straight-line basis. Share-based compensation expense recognized in the consolidated statements of operations relating to stock options for the three and nine-month periods ended September 30, 2007 was \$81,117 and \$293,337 respectively. Share-based compensation expense recognized in the consolidated statements of operations relating to stock options for each of the three and nine-month periods ended September 30, 2006 was \$14,501. We have not recorded income tax benefits related to equity-based compensation expense as deferred tax assets are fully offset by a valuation allowance.

In calculating compensation related to stock option grants, the fair value of each stock option is estimated on the date of grant using the Black-Scholes-Merton option-pricing model and the following weighted average assumptions:

	Nine months ended September 30, 2007	Nine months ended September 30, 2006
	-----	-----
Dividend yield	None	None
Expected volatility	35.0%	35.0%
Risk-free interest rate	4.0%-5.1%	4.0%-5.1%
Expected terms (years)	5.7-6.3	5.7-6.3

The Company calculates the expected volatility for stock-based awards using the historical volatility for its peer group public companies because sufficient historical data does not yet exist for the Company's stock. The risk free interest rates were determined by the rates of the 5 and 7 year treasury bills on the grant date of the options. The expected term was determined in accordance with Staff Accounting Bulletin No. 107.

The Company records the fair value of restricted stock and options granted to non-employees as deferred compensation at the date of issuance and recognizes compensation pro rata over the service period of the restricted stock or options. The compensation is adjusted for the change in fair market value at the end of each period.

AMERICAN TONERSERV CORP. AND SUBSIDIARY
Notes to Unaudited Condensed Consolidated Financial Statements

2. Basis of Presentation and Summary of Significant Accounting Policies
(Continued)

Net Loss per Share:

Net loss per share has been calculated using the weighted average number of shares outstanding during the period. Diluted loss per common share are computed similar to basic loss per share except that the weighted average number of common shares outstanding is increased to include additional common shares from the assumed exercise of options and warrants and conversion of convertible debt, if dilutive. Dilutive loss per share is the same as basic loss per share in all periods, since the impact of outstanding options and warrants is antidilutive.

The following securities could potentially dilute basic earnings per share in the future:

	September 30, 2007	September 30, 2006
	-----	-----
Options	8,998,333	5,950,000
Common Stock Warrants - 1998 & 1999 grants	36,729	50,729
Common Stock Warrants - Convertible debt	2,031,250 (1)	1,500,000 (5)
Convertible debt	5,113,636 (2)	3,541,666 (6)
Convertible Preferred Stock	19,528,550 (3)	-
Convertible debt - Optima	600,000 (4)	-
	-----	-----
Potential equivalent shares excluded	36,308,498	11,042,395
	=====	=====

(1) In addition to the outstanding options and common stock warrants, the Company has issued \$800,000 of notes as of September 30, 2007 that are convertible into common stock at a conversion price equal to the price of shares sold in a future offering of common stock. The holders of these notes also hold warrants that may be exercised to purchase a number of shares equal to 30% to 150% of the number of shares each holder would receive if their notes are converted into common stock. The exercise price of the warrants will be an estimated conversion price of \$0.18 per share, which represents a discount of 20%, the estimated discount of a PIPE offering, of the fair value of common stock of \$0.22 per share at September 30, 2007.

(2) Convertible debt was calculated based on \$900,000 of convertible notes outstanding using an estimated conversion price of \$0.18 per share, which represents a discount of 20%, the estimated discount of a PIPE offering, of the fair value of common stock of \$0.22 per share at September 30, 2007.

(3) Preferred Series C Convertible Shares are convertible into ten shares of the Company's common stock at the option of the holders.

AMERICAN TONERSERV CORP. AND SUBSIDIARY

Notes to Unaudited Condensed Consolidated Financial Statements

2. Basis of Presentation and Summary of Significant Accounting Policies (Continued)

Net Loss per Share (continued):

(4) The convertible note to Optima was calculated based on the share price of \$0.50 per share per the terms of the agreement dated April 1, 2007.

(5) In addition to the outstanding options and common stock warrants, the Company has issued \$425,000 of notes as of September 30, 2006 that are convertible into common stock at a conversion price equal to the price of shares sold in a future offering of common stock. The holders of these notes also hold warrants that may be exercised to purchase a number of shares equal to 40% to 150% of the number of shares each holder would receive if their notes are converted into common stock. The exercise price of the warrants will be equal to the price of shares sold in the offering of common stock. The Company estimated the number of warrants based on the fair value of common stock of \$0.15 per share at September 30, 2006.

(6) Convertible debt was calculated based on \$425,000 of convertible notes outstanding using an estimated conversion price of \$0.12 per share, which represents a discount of 20%, the estimated discount of a PIPE ("Private Investment in a Public Entity") offering, of the fair value of common stock \$0.15 per share at September 30, 2006.

Convertible Debt Securities:

The Company has issued convertible debt securities with non-detachable conversion features. The Company accounts for such securities on the condensed consolidated balance sheet as a component of the overall fair value of the securities. The Company estimates fair value based on the

intrinsic value of common stock by determining the difference between the total shares converted at fair value and the total shares converted at a 20% discount, which is the estimated discount of a PIPE offering.

Warrants and Detachable Warrants:

The Black-Scholes-Merton option pricing method was used to value the warrants and detachable warrants. A per share value of \$0.18 was attached to the warrants, which represents a discount of 20%, the estimated discount of a PIPE offering, of the fair value of common stock of \$0.22 per share at September 30, 2007, a 35% volatility and a risk free interest rate ranging from 4.0% to 5.1% based on the estimated life of six months of the warrants.

As the warrant contracts must be settled by the delivery of registered shares and the delivery of the registered shares are not controlled by the Company and the number of warrants is unknown at September 30, 2007, the estimated fair value of the warrants at the date of issuance was recorded as a warrant liability on the balance sheet. The total warrant liabilities as of September 30, 2007 was \$41,495.

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AMERICAN TONERSERV CORP. AND SUBSIDIARY **Notes to Unaudited Condensed Consolidated Financial Statements**

3. Going concern:

These condensed consolidated financial statements have been prepared on a going concern basis, which assumes that the Company will be able to realize its assets and discharge its obligations in the normal course of business.

The Company had a loss of \$(3,080,011) and had negative cash flows from operations of \$(1,806,818) for the nine month period ended September 30, 2007 and had an accumulated deficit of \$(15,826,527) and a working capital deficit of \$(2,673,378) at September 30, 2007. The Company continues to settle overdue claims from certain service providers resulting in a net gain of \$1,301 during the nine months ended September 30, 2007. The Company has significant cash requirements and is not generating sufficient cash flows from existing operations. The Company has insufficient funds to meet its financial obligations as they become due as operations are currently using cash of approximately \$200,000 per month.

Management believes it will be successful in financing its operations for the next twelve months. It is management's objective to seek additional capital and funding sources to finance its future operations. However, until such time as financing is obtained, there can be no assurance that sufficient funds will be available to finance its operations. This raises substantial doubt about the Company's ability to continue as a going concern. The Company raised \$2,975,000 through private offerings of convertible notes payable and preferred stock during the nine months ended September 30, 2007. The condensed consolidated financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts or amounts and classification of liabilities that might be necessary should the Company be unable to continue in existence. Although the Company will continue to seek additional cash resources through equity issuances in order to position the Company for possible future opportunities, there can be no assurance that funds will be available on an economic basis to the Company.

4. Acquisitions

On April 1, 2007, the Company entered into an Asset Purchase Agreement ("Agreement") with Azaria Management Group L.L.C., a Nevada limited liability company ("AMG") formerly Optima Technologies, L.L.C., a Nevada limited liability company ("Optima"), and Steven R. Jensen, who owns all of the membership interests in Optima relating to the purchase of certain assets of Optima's printer business. The purchase price for the acquisition consisted of \$741,278 in cash, \$124,987 in acquisition costs and \$1,800,000 in the form of three promissory notes. The Company also assumed certain liabilities of Optima of \$76,825 and the obligations of Optima under certain contracts.

On August 25, 2007, the Company entered into an Agreement with AMG which modifies the Asset Purchase Agreement with Optima entered into on April 1, 2007 relating to the purchase of certain assets by the Company.

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AMERICAN TONERSERV CORP. AND SUBSIDIARY **Notes to Unaudited Condensed Consolidated Financial Statements**

4. Acquisitions (continued):

One of the promissory notes (the "Secured Note") in the amount of \$250,000 bore interest at the rate of 7% per annum and was due within 105 days after the closing date. The Secured Note was secured by the assets purchased in the transaction. The note was discounted 8% for a combined imputed interest rate of 15%. The discount of \$5,624 will be amortized over the term of the note. This note was paid in full on August 13, 2007.

One of the promissory notes (the "Contingent Note") is in the amount of \$1,250,000 and bears interest at the rate of 7% per annum. The Contingent Note was subject to adjustment as described below. The Contingent Note is payable in thirty equal monthly installments of principal and interest, commencing on May 1, 2007. The note has been discounted 8% for a combined imputed interest rate of 15%. The discount of \$120,465 will be amortized over the term of the note. Under the terms of the amended agreement, the Company will continue to make the scheduled monthly installment payments under the Contingent Note dated April 1, 2007, until March 1, 2008, at which time the entire outstanding principal balance and unpaid accrued interest shall be due and payable. The Contingent Note was also amended to eliminate the gross profit requirements of the note. In addition, the Contingent Note shall be secured by the accounts receivable and inventory of Optima. The security interest is subordinated to any financing of the Company of at least \$3 million.

One of the promissory notes (the "Convertible Note"), in the amount of \$300,000, has a maturity date two years after the closing date. On the maturity date, the Convertible Note will automatically be converted into the number of shares of the Company's common stock that is equal to the quotient obtained by dividing (i) the aggregate outstanding principal balance due on the Convertible Note, by (ii) the greater of (A) \$0.50 per share, or (B) the average of the closing bid and ask prices of the common stock quoted in the over-the-counter market in which the common stock is traded for the five (5) trading days prior to the closing date and the five trading days on and after the closing date. The note will convert into 600,000 shares based on the calculated share price of \$0.50 per share per the terms of the agreement. This note is interest free and has been recorded at fair value due to the conversion option. Based on a share price of \$0.22 at September 30, 2007, the fair value of the convertible note has been reduced by \$168,000 to \$132,000. This reduction in the note balance has been offset by a reduction in goodwill by \$168,000 to \$411,848.

In connection with the closing of the acquisition, the Company entered into a Management Agreement with Optima and Steven R. Jensen that provides that Optima will serve as the manager of the Company's operations acquired from Optima for a period of thirty months, with an option for the Company to extend the agreement for an additional eighteen months. The Management Agreement provides for an annual management fee of \$522,429 to be paid to Steven R. Jensen in consideration for certain services, including, without limitation, support staffing, master software license, and office and warehouse facilities. The management fee will be adjusted annually to reflect a cost of living increase, and periodically to reflect changes in personnel.

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AMERICAN TONERSERV CORP. AND SUBSIDIARY
Notes to Unaudited Condensed Consolidated Financial Statements

4. Acquisitions (continued):

The annual management fee has been adjusted downward to \$455,028 based on a reduction of personnel effective September 1, 2007. Under the terms of the amended agreement dated August 25, 2007, the Company will pay AMG \$100,000 on or before October 8, 2007, for the right to unilaterally terminate the Management Agreement (the "Subsidiary Termination Right"). Upon exercise of the Subsidiary Termination Right, the Company will pay AMG an amount equal to \$25,000 multiplied by the number of months remaining in the term of the Management Agreement minus the \$100,000 paid as stated above. AMG has granted the Company an extension until November 30, 2007 to pay the \$100,000 termination fee.

In the amended agreement the Company has also purchased certain inventory for \$158,000 payable in six equal monthly payments plus interest thereon at the rate of 10% per annum. Two installment payments have been made for this inventory.

Also in connection with the closing of the acquisition, the Company entered into a Management Agreement with Axon Technologies, Inc. ("Axon"), a non-profit organization that employs persons with disabilities and produces remanufactured toner cartridges. Axon distributes its products to state agencies in Florida. Under this Management Agreement, Optima will provide management services for Axon and will receive a management fee equal to 90% of the amounts received by Axon for its products.

The following table summarizes the estimated fair values of the assets acquired and liabilities assumed at the date of acquisition. The Company is in the process of obtaining third-party valuations of certain intangible assets; thus, the allocation of the purchase price is subject to refinement.

Vehicles and equipment	\$ 87,362
Inventory	40,791
Customer list	1,899,000
Goodwill	411,848
Covenant not to compete	10,000

Total assets acquired	2,449,001

Notes payable - vehicles	(76,825)

Net assets acquired	\$2,372,176
	=====

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AMERICAN TONERSERV CORP. AND SUBSIDIARY
Notes to Unaudited Condensed Consolidated Financial Statements

4. Acquisitions (continued):

The unaudited pro forma combined statements of operations for the nine month periods ended September 30, 2007 and 2006 presented below assumes that the acquisition of certain assets of Optima Technologies, LLC was completed on January 1, 2007 and 2006, respectively:

	September 30,	
	2007	2006
Revenues:		
Toner	\$ 3,007,045	\$ 2,629,579
Service	410,959	459,637
Total revenues	3,418,004	3,089,216
Cost of sales:		
Toner	1,836,579	1,340,769
Service	374,770	395,687
Inventory write-down	68,500	-
Total cost of sales	2,279,849	1,736,456
Gross profit	1,138,155	1,352,760
Operating expenses:		
Salaries and wages	1,198,309	495,045
Professional fees and services	1,149,485	315,805
Sales and marketing	240,778	140,955
General and administrative	1,042,530	665,161
Amortization of customer lists	300,043	214,966
Total operating expenses	3,931,145	1,831,932
Loss from operations	(2,792,990)	(479,172)
Other income (expense):		
Fair value of convertible debt	(45,833)	(150,172)
Interest expense	(222,364)	(147,370)
Change in fair value of warrant liability	6,332	12,827
Gain on claims settlement	1,301	37,357
Net loss	\$ (3,053,554)	\$ (726,530)
Net loss per share:		
Basic and diluted	\$ (0.13)	\$ (0.09)

AMERICAN TONERSERV CORP. AND SUBSIDIARY
Notes to Unaudited Condensed Consolidated Financial Statements

4. Acquisitions (continued):

The adjustments and methodology used in allocating the purchase consideration for Optima and in the preparation of these unaudited pro forma combined statements of operations are based on estimates, available information and certain assumptions which may be revised as additional information becomes available. The pro forma financial data do not purport to represent what the Company's combined results of operations would actually have been if such acquisition had in fact occurred at the beginning of the periods, and are not necessarily representative of the Company's results of operations for any future period since the companies were not under common management or control during the periods presented.

5. Customer Lists

On June 11, 2007, the Company entered into an amendment to the customer list acquisition agreement with Computech Printer Solutions, Inc. ("Computech"). The Company will pay \$7,500 over a three month period. All three payments have been made per the terms of the amendment. Computech will also receive five percent of the gross sales through December 31, 2007. Because of this agreement the purchase price of the customer list was reduced by \$128,000. Accordingly, the note payable was also reduced by \$128,000. The conversion valuation in the amount of \$16,667 has also been reversed since a portion of the note is no longer convertible into the Company's common stock.

In August 2007, management determined that the value of the Laser Cartridge Recharging Services customer list should be reduced by \$89,115

based on a reduction of the estimated future amount of revenues generated by this list. Accordingly, the note payable was also reduced by \$89,115 to reflect the estimated future payments remaining on the note.

6. Recent Accounting Pronouncements:

In July 2006, the FASB issued FIN 48, "Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement 109" ("FIN 48") which clarifies the accounting for uncertainty in income taxes recognized in accordance with SFAS No. 109, "Accounting for Income Taxes." FIN 48 is a comprehensive model for how a Company should recognize, measure, present, and disclose in its financial statements uncertain tax positions that the Company has taken or expects to take on a tax return. If an income tax position exceeds a more likely than not (greater than 50%) probability of success upon tax audit, the Company will recognize an income tax benefit in its financial statements. Additionally, companies are required to accrue interest and related penalties, if applicable, on all tax exposures consistent with jurisdictional tax laws. This interpretation is effective on January 1, 2007. There was no impact from FIN 48 as the Company has not taken nor expects to take any uncertain tax positions on a tax return.

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AMERICAN TONERSERV CORP. AND SUBSIDIARY

Notes to Unaudited Condensed Financial Statements

7. Convertible Notes

During the nine months ended September 2007, the Company completed the sale of six Units of securities in a private offering at a purchase price of \$50,000 per Unit to three accredited investors. Each Unit consists of a 10% Convertible Note in the principal amount of \$49,999 (the "Notes") and a detachable warrant to purchase shares of the Company's Common Stock (the "Warrants"). The Notes bear interest at the rate of 10% per annum and become due and payable in full two years after issuance. The Notes may be converted, at the option of the holder, into shares of Common Stock upon the sale and issuance of common stock by the Company in a PIPE offering resulting in gross proceeds of not less than \$3,000,000 (a "\$3 Million Qualified Offering"). The conversion term will expire six months after the Company completes a \$3 Million Qualified Offering. The Notes will be automatically converted into shares of common stock upon the sale and issuance of common stock by the Company in a PIPE offering resulting in gross proceeds of not less than \$5,000,000 (a "\$5 Million Qualified Offering"). The price at which this Note may be converted into Common Stock (the "Conversion Price") shall be the average price at which the first \$1.0 million of Common Stock is sold in a \$3 Million or \$5 Million Qualified Offering, whichever may occur.

The conversion option feature of these notes has been valued based on a 20% discount of the stock at \$0.18 per share, which is the estimated discount in a PIPE offering of the fair value of common stock of \$0.22 per share at September 30, 2007. This conversion option is included in the fair value of these notes. These notes also contain detachable warrants equal to 30% of the face value of the note. In assessing the fair value of the warrant grants, the Company recorded the fair value of these instruments based on the Black-Scholes-Merton model which requires estimates of the volatility of our stock and the market price of our shares, which was \$0.22 per share at September 30, 2007.

In calculating the warrant liability, the fair value of each warrant is estimated at the end of each period using the Black-Scholes-Merton model and the following weighted average assumptions:

	Nine months ended September 30, 2007
Dividend yield	None
Expected volatility	35.00%
Risk-free interest rate	4.50%
Expected terms (years)	0.50

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AMERICAN TONERSERV CORP. AND SUBSIDIARY

Notes to Unaudited Condensed Financial Statements

7. Convertible Notes (continued):

In September 2007, the Company completed the sale of two Units of securities in a private offering at a purchase price of \$50,000 per Unit to two accredited investors. Each Unit consists of a 10% Convertible Note. The Notes bear interest at a rate of 10% per annum and become due and payable in full two years after issuance. The Notes may be converted into shares of our Common Stock during a 21 day period commencing 30 days after the termination date of October 17, 2007 at a price of \$0.28 per share. However, if the volume weighted average pricing ("VWAP") during the five trading days ending on the 30th day after the termination date is lower than \$0.28, the price would be reduced to 80% of the VWAP, but no lower than \$0.20.

The conversion option feature of these notes has been valued based on a fair value share price of \$0.22. At September 30, 2007 the conversion option was determined to be zero.

8. Preferred Stock

During the nine months ended September 30, 2007, the Company received subscriptions for 834,971 shares of Series C preferred stock (Series C Shares) from accredited investors in a private offering for \$2,575,000 in cash and 13,248 for past due vendor accounts that were settled.

The Series C Shares are convertible into ten shares of the Company's common stock at the option of the holders. The holders of the Series C Shares will vote together with the holders of common stock on an "as if converted" basis. The holders of the Series C Shares will also be entitled to vote as a separate class as required by Delaware law. Holders of Series C Convertible Preferred Stock will receive dividends only when and if declared by the Board of Directors of the Company and no dividends shall accumulate on the Series C Convertible Preferred Stock.

9. Stock-based Compensation

On February 22, 2007, the Company issued 389,630 shares of common stock for services previously rendered to the Company that were accrued at December 31, 2006. The number of shares issued was based on the share price of \$0.45, which is the fair market value of stock as of the date of issuance. Dan Brinker, Chief Executive Officer, received 66,667 shares for a total of \$30,000 in compensation. Aaron Brinker, Chief Operating Officer, received 45,185 shares for a total of \$20,333 in compensation. Ryan Vice, Chief Financial Officer, received 26,667 shares for a total of \$12,000 in compensation. Andrew Beaurline, Vice President of Corporate Development and Strategy received 228,889 shares for a total of \$103,000 in compensation, of which \$45,000 related to consulting services prior to his employment with the Company. Chuck Mache, advisor, received 22,222 shares for a total of \$10,000 in compensation.

On March 27, 2007, the Company entered into an agreement with Fort Holdings Limited to pay for services rendered to the Company during the three months ending March 31, 2007, in stock valued at \$177,000. These shares were priced at \$0.40 per share for a total of 442,500 common shares.

AMERICAN TONERSERV CORP. AND SUBSIDIARY

Notes to Unaudited Condensed Financial Statements

9. Stock-based Compensation (continued):

On April 1, 2007, the Company issued 4,717 shares of common stock for services previously rendered to the Company by Chuck Mache. These shares were issued at \$0.53 per share for a total of \$2,501 in compensation.

On May 15, 2007, the Company issued 25,000 shares of common stock for services previously rendered to the Company by Henry Manayan. These shares were issued at \$0.45 per share for a total of \$11,250 in compensation.

10. Restricted Stock

On July 7, 2006, the Company's Board of Directors entered into a Corporate Development and Consulting Agreement with Fort Holdings Ltd., a British Virgin Island corporation ("Fort Holdings"), under which Fort Holdings will provide corporate and business development, planning and financial consulting services to the Corporation. As compensation for these services, Fort Holdings received a \$10,000 retainer and 1,500,000 shares of the Company's Common Stock. The fair value of this stock when granted was \$0.015 per share. Restricted shares totaling 1,000,000 shares became vested as of January 7, 2007 due to the Corporate Development and Consulting Agreement still being in effect after six months as stated in the agreement.

As of February 28, 2007, the Corporate Development and Consulting Agreement was completed and the remaining 500,000 shares were vested immediately. The total compensation recognized during the nine months ending September 30, 2007 was \$102,500.

On September 30, 2007, the Company entered into an exclusive investor relations consultant agreement with After Market Support, LLC (AMS), under which AMS will provide various services as outlined in the agreement to help the Company achieve a NASDAQ listing within a twelve month period. As compensation for these services, AMS received 3,000,000 shares of the Company's Common Stock for \$3,000. The fair value of this stock when granted was \$0.22 per share. Restricted shares totaling 2,000,000 shares will vest over the next 12 months based on performance conditions, as defined in the agreement. The Company will pay \$10,000 per month plus additional program fees over the twelve months totaling \$300,000. The total compensation recognized during the nine months ending September 30, 2007 was \$219,000.

Restricted shares have the same voting and dividend rights as the Company's unrestricted common shares.

Compensation cost for restricted stock is recognized in the financial statements on a pro rata basis over the vesting period for employees. During the three and nine months ended September 30, 2007, the Company recognized \$1,875 and \$5,625, respectively, in compensation expense. During each of the three and nine months ended September 30, 2006, the Company recognized \$1,875 in compensation expense.

AMERICAN TONERSERV CORP. AND SUBSIDIARY
Notes to Unaudited Condensed Financial Statements

10. Restricted Stock (continued):

A summary of the changes in restricted stock outstanding during the nine months ended September 30, 2007 is presented below:

	Shares	Weighted Average Grant Date Fair Value
	-----	-----
Non-vested shares at January 1, 2007	2,500,000	\$0.015
Granted	2,000,000	\$0.220
Vested	(1,500,000)	\$0.015
Forfeited/Expired	-	-
	-----	-----
Non-vested shares at September 30, 2007	3,000,000	\$0.147
	=====	=====

As of September 30, 2007, there was \$443,625 of total unrecognized compensation cost related to restricted stock. The weighted average vesting period remaining for the restricted stock is 11 months.

11. Stock Option Plan

On February 9, 2007, the Company engaged four individuals to serve on its Strategic Advisory Board. These individuals were granted 100,000 options each at \$0.40 a share to serve a one year term. The options will vest equally over the twelve month term.

On February 15, 2007, the Board of Directors granted options to purchase 50,000 shares of common stock to an employee. The exercise price of these options was \$0.45 per share with a vesting period of four years.

On March 26, 2007, the Board of Directors granted options to purchase 50,000 shares of common stock to an employee. The exercise price of these options was \$0.45 per share with a vesting period of four years.

On May 14, 2007, the Board of Directors granted options to purchase 500,000 shares to Michael Ducey, our Senior Vice President of Sales and Marketing. The exercise price of these options was \$0.60 per share with a vesting period of four years.

On May 31, 2007, the Board of Directors granted options to purchase 6,300 shares of common stock to each of two employees. The exercise price of these options was \$0.50 per share with a vesting period of four years.

AMERICAN TONERSERV CORP. AND SUBSIDIARY
Notes to Unaudited Condensed Financial Statements

11. Stock Option Plan (continued):

On July 20, 2007, the Board of Directors granted options to purchase 75,000, 85,000 and 100,000 shares to Michael Talbott, David Curtas and James Egan in accordance with the terms of their employment agreements with Optima Technologies, LLC. The exercise price of these options was \$0.52 per share with a vesting period of four years.

On August 13, 2007, the Board of Directors granted options to Steven R. Jensen, a director, to purchase 300,000 shares of common stock. The exercise price of these options was \$0.36 per share with a vesting period of 30 months.

A summary of the changes in stock options outstanding under our equity- based compensation plans during the nine months ended September

30, 2007 is presented below:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value
	-----	-----	-----	-----
Outstanding at January 1, 2007	7,442,640	\$0.17	9.67	\$2,386,274
Granted	1,572,600	\$0.43	9.62	-
Exercised	-	-	-	-
Forfeited/Expired	(16,907)	\$1.79	-	-
	-----	-----	-----	-----
Outstanding at September 30, 2007	8,998,333	\$0.22	9.03	\$ 483,500
	=====	=====	=====	=====
Exercisable at September 30, 2007	2,202,876	\$0.22	8.89	\$ 125,024
	=====	=====	=====	=====

The weighted average grant date fair value of options granted during the nine-month period ended September 30, 2007 was \$0.48.

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AMERICAN TONERSERV CORP. AND SUBSIDIARY
Notes to Unaudited Condensed Financial Statements

11. Stock Option Plan (Continued)

As of September 30, 2007, there was approximately \$332,796 of total unrecognized compensation cost related to non-vested options granted under the plans, which is expected to be recognized over a weighted average period of 2.42 years, of which \$8,898 is recorded as deferred compensation. A total of 1,939,409 options vested with a total fair value of \$426,670 during the nine-month period ended September 30, 2007. No options were exercised during the nine-month period ended September 30, 2007.

12. Letter of Credit

On June 6, 2007, the Company secured a credit facility in the amount of \$960,000 from a bank. This facility will be used to provide Standby Letters of Credit to secure standard terms from certain vendors. This credit facility has a maturity date of June 30, 2008 and is personally guaranteed by Daniel Brinker, William Robotham and Thomas Hakel. Any draws on the letter of credit will accrue interest at 5 percent over the prime rate.

13. Commitments and Contingencies

On July 5, 2007, the Company was served with a notice of charge of discrimination by a former independent sales representative (ISP) for alleged acts by another ISP. The claimant is seeking total monetary damages in the amount of \$150,000. The Company is awaiting a response from the United States Equal Employment Opportunity Commission. The Company believes it has minimal or no liability as the Company is protected by indemnification provisions within the ISP agreements.

14. Shareholder Advances

In 2007, William Robotham, Director, and Thomas Hakel, Director, advanced the Company \$330,000 and \$160,000 respectively for working capital and payments due to Optima. These advances are interest free with no set due date.

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AMERICAN TONERSERV CORP. AND SUBSIDIARY
Notes to Unaudited Condensed Financial Statements

15. Subsequent Events

In October 2007, William Robotham, Director, and Thomas Hakel, Director, advanced the Company \$40,000 and \$115,000 respectively, for working capital. These advances are interest free and will be paid back as funds are received by the Company from its current \$5.0 million

offering.

On October 11, 2007, the holders of a majority of the outstanding shares of the Series C Convertible Preferred Stock ("Series C Stock") of the Company approved the conversion of all of the Series C Stock into shares of the Company's Common Stock. The terms of the Series C Stock included a provision that the Series C Stock would automatically be converted into Common Stock upon the approval of the holders of a majority of the Series C Stock outstanding. As a result of the conversion of the Series C Stock, a total of 19,528,560 shares of Common Stock were issued to the holders of the Series C Stock. After giving effect to this issuance, there are now 46,172,283 shares of the Company's Common Stock outstanding.

On October 22, 2007, the Company amended its agreement dated May 15, 2007 with Dinosaur Securities, LLC (Dinosaur). In exchange for Dinosaur reducing its cash fee and warrant fee to 1.5%, respectively, of monies raised, the Company has agreed to sell to Dinosaur 600,000 shares of common stock for \$.001 per share.

On October 22, 2007, the Company employed Keating Securities, LLC as its Placement Agent for the Company's current \$5.0 million private offering of common stock and warrants.

On October 23, 2007, the Board of Directors granted options to purchase 200,000 shares of common stock to a consultant. These options will have an exercise price of \$0.20 per share and a 12 month vesting period.

On October 29, 2007, William Robotham, Director, converted \$100,000 of advances due from the Company into 2 Units of the Company's current private offering.

On October 30, 2007, Thomas Hakel, Director, converted \$100,000 of advances due from the Company into 2 Units of the Company's current private offering.

In October 2007, the Company sold 7 units totaling \$350,000 of its current private placement memorandum to four accredited investors. This amount includes the Units purchased by William Robotham and Thomas Hakel, respectively. Each Unit consists of 200,000 shares of common stock and 200,000 redeemable warrants, each to purchase one share of common stock.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION

This Report contains statements that may contain forward-looking statements, concerning the Registrant's future operations and planned future acquisitions and other matters and the Registrant intends that such forward- looking statements be subject to the safe harbors for such statements. Any statements that involve discussions with respect to predictions, expectations, belief, plans, projections, objectives, assumptions or future events or performance (often, but not always, using phrases such as "expects", or "does not expect", "is expected", "anticipates" or "does not anticipate", "plans", "estimates" or "intends", or stating that certain actions, events or results "may", "could", "might", or "will" be taken to occur or be achieved) are not statements of historical fact and may be "forward looking statements". These forward-looking statements include statements relating to, among other things, the ability of the Registrant to continue as a going concern.

The Company cautions readers not to place undue reliance on any such forward-looking statements, which speak only as of the date made. Such forward-looking statements are based on the beliefs and estimates of the Company's management as well as on assumptions made by and information currently available to the Company at the time such statements were made. Forward looking statements are subject to a variety of risks and uncertainties which could cause actual events or results to differ from those reflected in the forward looking statements, including, without limitation, the failure to obtain adequate financing on a timely basis. Actual results could differ materially from those projected in the forward-looking statements, either as a result of the matters set forth or incorporated in this Report generally and certain economic and business factors, some of which may be beyond the control of the Registrant. Additional risks and uncertainties that may affect forward-looking statements about the Company's business and prospects include adverse economic conditions, inadequate capital, unexpected costs, and other factors set forth under "Risk Factors" in its Registration Statement on Form SB-2, which could have an immediate and material adverse effect. The Company disclaims any obligation subsequently to revise any forward-looking statements to reflect events or circumstances after the date of such statements or to reflect the occurrence of anticipated or unanticipated events.

This following discussion and analysis of the results of operations and financial condition of the Company should be read in conjunction with the audited financial statements for the period ended December 31, 2006 and the related notes, contained in the Company's Annual Report on Form 10-KSB and in conjunction with the unaudited financial statements and notes thereto appearing elsewhere in this Form 10-QSB.

Three Months Ended September 30, 2007 and 2006

Revenue. Revenue for the three months ended September 30, 2007 ("Q3 2007") was \$1,086,602 as compared to \$172,952 for the three month period ended September 30, 2006 ("Q3 2006"). The increase in revenue in Q3 2007 was primarily due to revenues that resulted from one asset purchase agreement that was closed in April of 2007 and three customer list acquisitions from toner distributors that occurred in the second half of 2006. Revenues from the sale of toner cartridges increased by \$824,852 for three months ended September 30, 2007 compared to 2006.

Revenues from service increased by \$88,798 for the three months ended September 30, 2007 compared to 2006 due to the Optima asset purchase, offset by the non-renewal of full-service maintenance agreements.

Gross Profit (Revenue less Cost of Goods Sold). Gross profit for Q3 2007 increased to \$260,616 from \$55,421 in Q3 2006. The gross profit margin in Q3 2007 was 24% compared to a gross profit margin for Q3 2006 of 32%. The Company's gross margins decreased compared to Q3 2006 due to the lower margins associated with the Optima service revenues and a one-time inventory impairment charge of \$68,500.

Salaries and Wages. Salaries and Wages expenses were \$398,776 for Q3 2007 compared to \$305,758 in Q3 2006. The Q3 2007 increase was due to the Company having 33 full-time employees, including the management team, during Q3 2007 compared to 5 full-time employees in Q3 2006. This increase was offset by stock based compensation paid to management and the Board in Q3 2006. Stock based compensation also accounted for \$53,635 of this expense in Q3 2007.

Professional Fees and Services. Professional Fees and Services expenses were \$418,965 in Q3 2007 compared to \$243,356 in Q3 2006. This increase was primarily due to stock compensation recognized by After Market Support, LLC in the amount of \$219,000.

Sales and Marketing. Sales and Marketing expenses were \$44,327 for Q3 2007 and \$6,094 in Q3 2006. This increase in Q3 2007 was primarily due to the hiring of an advertising consultant, sales commissions relating to the Company's Independent Sales Partners, investor relations and industry magazine advertising.

General and Administrative. General and Administrative expenses were \$389,113 in Q3 2007 and \$64,424 in Q3 2006. General and Administrative expenses increased due to the Company's acquisition of Optima, beginning a health plan, additional rent for office space and an overall increase to support 28 additional employees compared to Q3 2006.

Amortization of Customer Lists. Amortization expense was \$97,981 in Q3 2007 compared to \$11,503 in Q3 2006. This increase was due to the Company's acquisition of Sun Products customer list in December 2006, and acquisition of Optima in April 2007.

Other Income (Expense). Q3 2007 had an increase of \$89,323 in interest expenses relating to additional convertible notes sold in a private offering and notes issued in connection with the Company's acquisitions. There was an increase in the change in the fair value of the warrant liability of \$670 for Q3 2007 compared to Q3 2006. There was an increase in the change in the fair value of the convertible debt of \$100,172 for Q3 2007 compared to Q3 2006. This increase was due to an increase in convertible notes issued to investors.

Net Loss. The net loss for the three months ended September 30, 2007 was \$1,234,037 compared to \$732,724 for the three months ended September 30, 2006. The increase in the net loss of \$501,313 for Q3 2007 was primarily attributable to stock related compensation totaling \$219,000, Optima's net loss of \$305,220, which included an inventory impairment of \$68,500 and increased professional fees and services offset by income generated by the Sun Products customer list.

Net Loss) per Share. The net loss per share in Q3 2007 was \$(0.05) compared to a loss of \$(0.03) in Q3 2006. The Company believes that it will continue to have net losses for the foreseeable future.

Nine Months Ended September 30, 2007 and 2006

Revenue. Revenue for the nine months ended September 30, 2007 ("YTD 2007") was \$2,575,800 as compared to \$325,386 for the nine month period ended September 30, 2006 ("YTD 2006"). The increase in revenue in YTD 2007 was primarily due to revenues that resulted from the Company's three customer list acquisitions it made in the second half of 2006 and an asset purchase of a toner distributor that was completed on April 1, 2007. Revenues from the sale of toner cartridges increased by \$2,139,431 for the nine months ended September 30, 2007 compared to 2006. Revenues from service increased by \$110,983 for the nine months ended September 30, 2007 compared to 2006 due to the acquisition of Optima in April 2007.

Gross Profit (Revenue less Cost of Goods Sold). Gross profit for YTD 2007 increased to \$781,194 from \$144,759 in YTD 2006. The gross profit margin in YTD 2007 was 30% compared to a gross profit margin for YTD 2006 of 44%. The Company's gross margins decreased compared to YTD 2006 due to the lower margins associated with service revenues compared to toner sales and \$68,500 in inventory impairment.

Salaries and Wages. Salaries and Wages expenses were \$1,161,649 for YTD 2007 compared to \$362,133 in YTD 2006. The YTD 2007 increase was due to the Company having 33 full-time employees, including the management team, during YTD 2007 compared to 5 full-time employees in YTD 2006. Stock based compensation also accounted for \$139,089 of this expense.

Professional Fees and Services. Professional Fees and Services expenses were \$1,149,485 in YTD 2007 compared to \$315,805 in YTD 2006. This increase was primarily due to \$383,500 of costs associated with the Company's Corporate Development Plan agreement with Fort

Holdings Limited and \$219,000 of costs associated with the Company's after market support program. A portion of this amount was \$512,251 paid in the form of common stock. The Company also recognized \$161,393 in stock option expense for their strategic advisory board.

Sales and Marketing. Sales and Marketing expenses were \$211,663 for YTD 2007 and \$15,875 in YTD 2006. This increase in YTD 2007 was primarily due to the hiring of an advertising consultant, sales commissions relating to the Company's Independent Sales Partners, investor relations and industry magazine advertising.

General and Administrative. General and Administrative expenses were \$876,937 in YTD 2007 and \$148,304 in YTD 2006. General and Administrative expenses increased due to the Company beginning a health plan, additional rent for office space and an overall increase to support 28 additional employees compared to YTD 2006.

Amortization of Customer Lists. Amortization expense was \$232,222 in YTD 2007 compared to 11,503 in YTD 2006. This increase was due to the Company's acquisition of Sun Products customer list in December 2006 and acquisition of Optima in April 2007.

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Other Income (Expense). YTD 2007 had an increase of \$137,624 in interest expenses relating to convertible notes payable related to the Company raising money through a private offering and notes relating to acquisitions. There was a decrease in the change in the fair value of the warrant liability of \$6,495 for YTD 2007 compared to YTD 2006. The gain on claims settlement was \$1,301 for YTD 2007 compared to \$37,357 YTD 2006. Conversion option loss was \$45,833 for YTD 2007 compared to a loss of \$150,172 in YTD 2006. This decrease in loss was due to less convertible notes being issued to investors during 2007.

Net Loss. The net loss for the nine months ended September 30, 2007 was \$3,080,011 compared to \$862,274 for the nine months ended September 30, 2006. The increase in the net loss of \$2,217,737 for YTD 2007 was primarily attributable to stock related compensation totaling \$811,065, payments made to Fort Holdings Limited for \$100,000 for the Company's Corporate Development Plan, increased professional fees and services, additional salaries and wage expense due to the Company hiring additional personnel to support its objective of acquiring toner distributors.

Net Loss per Share. The net loss per share in YTD 2007 was \$(0.13) compared to a loss of \$(0.11) in YTD 2006.

The Company believes that it will continue to have net losses for the foreseeable future.

Liquidity and Capital Resources

At September 30, 2007, the Company had a working capital deficit of \$2,673,348, including cash and equivalent balances of \$75,007 compared to a working capital deficit of \$572,067 at December 31, 2006 including cash and equivalent balances of \$171,220. The Company will need to secure additional funding sources to meet its need for working capital and to complete the proposed acquisition of Tonertype.

Accounts receivable increased \$504,295 from \$100,483 at December 31, 2006 to \$604,778, at September 30, 2007. This was primarily due to increased revenues from the Optima acquisition and the three customer list acquisitions in the second half of 2006.

Accounts payable and accrued expenses, which consist primarily of amounts due to third party service providers and toner suppliers, increased \$545,745 from \$723,817 at December 31, 2006 to \$1,269,562 at September 30, 2007. The increase was primarily due to the Company's Optima acquisition and the three customer list acquisitions in the second half of 2006.

The Company has entered into no derivative financial instrument arrangements for the nine months ended September 30, 2007.

During the nine months ended September 30, 2007, the Company raised \$400,000 in gross proceeds from a private offering of Units consisting of a convertible notes and warrants and \$2,575,000 in gross proceeds from a private offering of Preferred Series C shares. The notes bear interest at the rate of ten percent (10%) per year, payable monthly. The notes are due and payable in full two years from the date of issuance. Each unit includes a warrant to purchase shares of our Common Stock. The number of shares that may be purchased pursuant to each warrant will equal approximately 30% of the number of shares a holder would receive if the holder converted their notes into shares of the Company's common stock.

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The notes may be converted, at the option of the holder, into shares of our Common Stock upon the occurrence of a Private Investment in a Public Entity offering ("PIPE offering") undertaken by the Company that raises a minimum of \$3.0 million. The price at which the note may be converted into Common Stock will be the average price at which the first \$1.0 million of Common Stock is sold in a PIPE offering, as defined in the note.

The Company currently has no external sources of liquidity.

During the nine months ended September 30, 2007, the Company used \$(1,806,818) in cash from operations. The cash flows were used primarily to finance the Company's continued losses from operations. The Company does not expect to generate sufficient cash from existing operations to meet its capital requirements in the short or long term, which makes the Company's ability to continue as a going concern questionable. Management believes it will be successful in financing its operations for the next twelve months. However, until such time as financing is obtained, there can be no assurance that sufficient funds will be available to finance its operations.

During the nine months ended September 30, 2007, the Company used \$(991,376) in cash from investing activities. The cash flows were used primarily for the Company's asset purchase of Optima Technologies, LLC.

During the nine months ended September 30, 2007, the Company received \$2,701,981 in cash from financing activities. These cash flows were primarily from \$2,975,000 for the issuance of preferred stock and convertible notes and \$490,000 in shareholder advances offset by \$(716,019) in payments on debt relating to customer lists and convertible notes.

Business Outlook, Risks and Uncertainties

Economic Uncertainties

Current economic slowdown, financial market conditions, and the political environment may affect the Company's ability to raise financing. The Company will be required to raise additional capital to establish business operations. The uncertainty about the Company's ability to raise financing makes it difficult to predict the Company's results for fiscal year 2007 and its ability to continue as a going concern.

Sufficiency of Working Capital

As of September 30, 2007, the Company had a net working capital deficit of \$2,673,348. The Company has inadequate financial resources to sustain its business activities. The Company currently has no ability to generate positive cash flows from operations. The Company is currently spending approximating \$200,000 more cash per month than it generates.

During the nine months ended September 30, 2007, the Company received \$2,975,000 in proceeds from the Convertible Note offering and Preferred Series C offering. These proceeds were used for working capital and acquisitions.

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The Company estimates that it will need to raise an additional \$2,400,000 during the next 12 months to meet its minimum capital requirements. There is substantial doubt that the Company will be able to continue as a going concern, absent raising additional financing. There can be no assurance that the Company will be successful in obtaining the required financing.

The financial statements have been prepared on a going concern basis, which assumes that the Company will be able to realize its assets and discharge its obligations in the normal course of business. If the Company were not to continue as a going concern, it would likely not be able to realize its assets at values comparable to the carrying value or the fair value estimates reflected in the balances set out in the preparation of the consolidated financial statements.

The Company does not use financial instruments for trading purposes and is not a party to any leverage derivatives. To the extent that the Company has or continues to issue debt obligations outside of the course of its normal operations, the Company's business and results of operations may be materially affected by changes in interest rates and certain other credit risk associated with its operations.

Other Matters

In the event the Company experiences substantial growth in the future, the Company's business and results of operations may be materially affected by changes in interest rates and certain other credit risk associated with its operations.

Off Balance Sheet Arrangements

The Company has no off balance sheet financing arrangements that have or are reasonably likely to have a current or future affect on the Company's financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that are material to investors.

ITEM 3. CONTROLS AND PROCEDURES.

(a) Evaluation of Disclosure Controls and Procedures.

The term "disclosure controls and procedures" is defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). This term refers to the controls and procedures of a Company that are designed to ensure that information

required to be disclosed by a Company in the reports that it files under the Exchange Act is recorded, processed, summarized, and reported within the required time periods. Our Chief Executive Officer and Principal Financial Officer have evaluated the effectiveness of our disclosure controls and procedures as of the end of the period covered by this quarterly report. They have concluded that, as of that date, our disclosure controls and procedures were effective at ensuring that required information will be disclosed on a timely basis in our reports filed under the Exchange Act.

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(b) Changes in Internal Control over Financial Reporting.

No change in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) occurred during the period covered by this report that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Part II. Other Information

ITEM 1. LEGAL PROCEEDINGS.

On July 5, 2007, the Company was served with a notice of charge of discrimination by a former independent sales representative (ISP) for alleged acts by another ISP. The claimant is seeking total monetary damages in the amount of \$150,000. The Company is awaiting a response from the United States Equal Opportunity Commission. The Company believes it has minimal or no liability as the Company is protected by indemnification provisions within the ISP agreements.

On July 19, 2007, the Company was sued in civil court by an individual for \$7,500 for anti-spam violations. The Company settled this claim for \$1,000.

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

There were no unregistered sales of equity securities during the nine months ended September 30, 2007 that have not been disclosed in reports on Form 8-K, except as set forth below.

The Company sold 138,889 of Preferred Series C shares to four accredited investors totaling \$500,000 during June and July 2007. Each Series C Share is convertible into ten shares of the Company's common stock (subject to certain anti-dilution adjustments) at any time at the holder's option. Each Series C Share will automatically be converted into ten shares of Common Stock (subject to certain anti-dilution provisions) upon (i) the affirmative vote of a majority of the outstanding shares of the Preferred Stock (voting together as a single class) or (ii) the consummation of an underwritten public offering with aggregate proceeds in excess of \$3,000,000.

In connection with the sale of the Series C Shares the Company relied upon the exemptions provided by Section 4(2) of the Act, and Rule 506 under the Act. The securities were sold to persons who were already shareholders of the Company as well as persons with whom Directors of the Company had a prior business relationship. The Company reasonably believes that all of these investors are "Accredited Investors," as defined under the Act, who had access to complete information concerning the Company. Each investor was given a private placement memorandum that provided detailed information about the Company and the securities to be issued, and investors were given an opportunity to ask questions of management. No advertising or other general solicitation was used in connection with the offering. The investors signed subscription documents representing that they were acquiring the securities for investment purposes only. A restrictive legend will be placed on the certificates representing the securities issued.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES.

Not Applicable.

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

Not Applicable.

ITEM 5. OTHER INFORMATION.

Not Applicable

ITEM 6. EXHIBITS.

Exhibit No. -----	Description -----
10.1	Consulting Agreement with After Market Support, LLC
31.1	Certification of Chief Executive Officer pursuant to Rule 13a-14(a) or Rule 15d-14(a).
31.2	Certification of Principal Financial Officer pursuant to Rule 13a-14(a) or Rule 15d-14(a).
32.1	Certification of CEO pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Principal Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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SIGNATURES

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

AMERICAN TONERSERV CORP.

Date: November 9, 2007

*By: /s/ Daniel J. Brinker
Daniel J. Brinker
Chief Executive Officer*

*By: /s/ Ryan Vice
Ryan Vice
Chief Financial Officer*

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EXHIBIT 10.1

AFTER MARKET SUPPORT, LLC
5251 DTC Parkway, Suite 1050
Greenwood Village, CO 80111-2739

(720) 489-4913 Fax (303) 728-3542

September 24, 2007

Daniel J. Brinker
Chairman of the Board and CEO
American TonerServ Corporation
475 Aviation Blvd., Suite 100
Santa Rosa, CA 95403

Re: After Market Support, LLC Consulting Agreement

Dear Mr. Brinker:

After Market Support, LLC, a Delaware limited liability company ("AMS"), is engaged in the business of providing comprehensive investor relations services designed specifically for micro-cap and small-cap public companies, offering a strategic path to a NASDAQ Capital Market listing. American TonerServ Corporation, a publicly owned and traded California corporation, desires to engage AMS as its exclusive investor relations consultant. This letter agreement (the "Agreement") will confirm our prior conversations, negotiations and agreement regarding the Services (as that term is defined in

Section 1 below) to be performed by AMS as the exclusive investor relations consultant to American TonerServ Corporation and its subsidiaries, affiliates and controlled persons (collectively, the "Company") and the Company's duties and obligations to AMS. This Agreement shall become effective upon its execution by both AMS and the Company. AMS and the Company are sometime individually referred to as a "Party" and collectively as the "Parties".

I. Performance of the Services. AMS covenants and agrees to execute the strategic and tactical plans, objectives, the third party marketing plan (the "Partner Marketing Plan") and underlying services set forth on Exhibit A annexed hereto and hereby incorporated herein by reference (collectively the "Services"). In doing so, AMS shall make itself available to consult with the Board of Directors and the officers, senior managers, representatives and agents of the Company at reasonable times during normal business hours, concerning matters pertaining to the Company's investor relations and aftermarket support plans and programs ("Program"). The primary objectives of the Program will be to: (i) achieve recognition of the Company with the financial community, investors and the public as a provider of print management solutions to middle-market companies; (ii) recommend strategies to enhance shareholder value; (iii) increase retail and institutional interest in the Company's common stock, its only class of trading securities; and (iv) achieve a listing upgrade to the NASDAQ Capital Market.

II. Performance by the Company. Pursuant to the terms of this Agreement, the Company hereby covenants and agrees to follow the strategic and tactical parameters of the Program and to cooperate with, aid and assist AMS in its performance of the Services.

III. Term and Termination. The term of this Agreement shall commence upon its execution by both AMS and the Company and shall continue for a period of twelve (12) months, or such longer period as mutually agreed to by the Parties in writing ("Term"). This Agreement shall be terminable by either Party on 30 days prior written notice. This Agreement can also be terminated on November 30, 2007 if the Financing (described below) is not completed by that time. In the event of termination, all fees due to AMS shall be paid including its Monthly Fee (as that term is defined in Section IV below) through the date of the termination notice.

IV. AMS's Compensation and Payment. As its total compensation for the Services to be rendered by AMS under this Agreement, the Company agrees to compensate AMS in cash and securities as follows:

A. Cash. During the Term of this Agreement, the Company covenants and agrees to pay to AMS a monthly fee of \$10,000 per month commencing October 1, 2007 (the "Monthly Fee"). Until the closing date of the Company's upcoming financing of at least \$5,000,000 (the "Financing"), Monthly Fee payments shall be made in advance on the first day of each month against invoices submitted by AMS. All Monthly Fee payments which have not been received by AMS within 10 days of the due dates, as set out on the monthly invoices, are subject to interest at the rate of 2% per month (or such lesser rate as may be required by applicable law). Commencing with the first full calendar quarter following the closing date of the Financing, the Company covenants and agrees to pay the Monthly Fees to AMS, in advance, on a quarterly basis at the rate of \$30,000 per quarter against invoices submitted by AMS. All Monthly Fee payments which have not been received by AMS within ten days of the due dates, as set out on the quarterly invoices, are subject to interest at the rate of 2% per month (or such lesser rate as may be required by applicable law);

B. Common Stock. As additional consideration, and in recognition of the unique nature and value of the Services the Company hereby sells to AMS (or Keating Investments, LLC ("Keating Investments") and/or its designees) an aggregate of 3,000,000 restricted (i.e., unregistered) shares of the Company's Common Stock, par value of \$0.001 per share (the "Shares"), for \$3,000. In the event that the Company does not raise

at least \$5,000,000 within a period of 12 months following the execution of this Agreement, AMS (or Keating Investments and/or its designees) covenants and agrees to return 200,000 Shares to the Company for every \$1,000,000 below the \$5,000,000 up to an aggregate of 1,000,000 Shares to the Company, representing thirty-three and one-third percent (33 1/3%) of the total Shares purchased by AMS (or Keating Investments and/or its designees) above. In the event that the Company does not achieve a NASDAQ Capital Market listing within a period of 12 months following the execution of this Agreement, AMS (or Keating Investments and/or its designees) covenants and agrees to return an aggregate of 1,000,000 Shares to the Company, representing thirty-three and one-third percent (33 1/3%) of the total Shares purchased by AMS (or Keating Investments and/or its designees) above. In the event the Company terminates AMS on or before November 30, 2007 subject to its sole discretion in Section III of this Agreement, AMS (or Keating Investments and/or its designees) covenants and agrees to return 2,000,000 Shares to the Company for a total of \$2,000.

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C. Payments of Monthly Fees, Partner Marketing Fees and Expenses. Within ten days following the closing date of the Financing, the Company covenants and agrees: (i) to open a bank account at Steele Street State Bank at 55 Adams Street, Denver, Colorado 80206 with the Company as the sole signatory (the "Account"); and (ii) to deposit a sum equal to at least \$250,000 representing the Partner Marketing Fees (as that term is defined in

Section V below) plus the aggregate Monthly Fees due through the remainder of the Term in the Account. All payments of the Monthly Fees, the Partner Marketing Fees and the Expenses (as that term is defined in Paragraph IV D) shall be made from the Account via federal wire transfer or ACH. The Company shall obtain and deliver to AMS a Debit/Credit card (the "Card") for the Account for the sole purpose of paying the Partner Marketing Fees and the Expenses. Prior to the use of the Card by AMS, AMS shall give the Company 30 business days prior written notice containing a full detailed description of the nature and amount of any Partner Marketing Fee sought to be paid; and 15 days prior written notice containing a full detailed description of the nature and amount of any distribution costs, printing costs, airline travel, hotel accommodations, road shows, investor conferences, and other ordinary and necessary costs and expenses that AMS intends to incur in the performance of the Services (collectively the "Expenses"). No payment shall be made out of the Account until and unless the Company shall have furnished AMS with prior written approval of such expenditure. When Expenses payments aggregate \$5,000, the Company shall deposit the amount thereof into the Account.

V. Partner Marketing. In consideration of AMS entering into this Agreement, the Company hereby agrees to undertake the services and pay the associated costs, fees and expenses (the "Partner Marketing Fees") in connection with the Partner Marketing Plan set forth on Exhibit A annexed hereto. The elements of the Partner Marketing Plan, the costs thereof and the related timing may only be modified upon mutually written consent by the Company and AMS. The Company agrees to deposit the at least \$250,000 estimated cost of the Partner Marketing Plan as well the Monthly Fee in the Account as set forth in Section IV D above.

VI. Compliance with Law. The Parties hereto acknowledge and agree that AMS is not rendering legal advice or performing tax, accounting or auditing services. The Company is solely responsible for compliance with all federal, state and local laws, ordinances, regulations, statutes, rules, orders, injunctions, judgments and decrees applicable to the Company (collectively, the "Laws"), including, without limitation, federal and state securities laws. The Company is responsible for ensuring that any presentation (written, oral, web cast or other format), press release, marketing materials, website materials, documents or disclosures comprising or resulting from the Services are truthful and complete and otherwise comply with all Laws.

VII. Independent Contractor. AMS is and will hereafter act as an independent contractor and not as an employee of the Company and nothing in this Agreement shall be interpreted or construed to create any employment, partnership, joint venture, or other relationship between AMS and the Company. AMS will not hold itself out as having, and will not state to any person that AMS has, any relationship with the Company other than as an independent contractor. AMS shall have no right or power to find or create

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any liability or obligation for or in the name of the Company or to sign any documents on behalf of the Company. AMS shall be free to provide services for other persons and entities, which services shall not be deemed to be in conflict with the services to be performed by AMS under this Agreement; provided, however, that AMS shall not, during the Term hereof, perform services similar to those set forth herein to any third party that directly competes with the business of the Company without the prior written consent of the Company.

VIII. AMS's Related Parties. AMS is a wholly-owned subsidiary of Keating Investments, an investment advisor registered with the United States Securities and Exchange Commission. Keating Securities, LLC ("Keating Securities") is a 90% owned subsidiary of Keating Investments. Keating Securities is a broker-dealer registered with the U.S. Securities and Exchange Commission and various state securities commissions and agencies, and is a member of the National Association of Securities Dealers (the "NASD") and Securities Investor Protection Corporation. AMS hereby acknowledges and agrees that the Services are being provided solely by AMS, and that neither Keating Securities nor Keating Investments will be providing any of the Services in any capacity whatsoever.

IX. Market-Making Activities. AMS hereby represents to the Company that Keating Securities, an affiliate of AMS, is currently registered and licensed to publish a quotation for, and act as market-maker in, a security under the rules of the NASD and, as such, Keating Securities may, in its sole discretion and subject to regulatory requirements, make a market in the Company's common stock from time to time. The Company hereby acknowledges and agrees that: (A) NASD Rule 2460 specifically prohibits broker-dealers such as Keating Securities from accepting any payment or other consideration, directly or indirectly, from an issuer of a security, or any affiliate or promoter thereof, for publishing a quotation, acting as market maker in a security, or submitting an application in connection therewith; (B) Keating Securities maintains full

compliance with this rule at all times, and the Services to be provided hereunder are "bona fide services" as permitted by Rule 2460; (C) the compensation payable to AMS under this Agreement is not, and should not be construed to be, for the provision of any market-making services; and (D) nothing contained in this Agreement shall be construed as an agreement by AMS to cause Keating Securities to make a market in the Company's common stock.

X. Availability and Accuracy of Information. The Company shall furnish AMS with all reasonable information and material requested or required by AMS involving the Company including, without limitation, information concerning historical and projected financial results, public and regulatory filings, material contracts and commitments, proposed financings, acquisitions or other transactions, and possible and known litigation, environmental and other contingent liabilities of the Company ("Information"). The Company also agrees to make available to AMS such representatives of the Company, including, among others, directors, officers, employees, outside counsel and independent certified public accountants, as AMS may reasonably request. The Company will promptly advise AMS of any material changes in the Company's business or finances. The Company represents and warrants that the Information provided or made available to

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AMS by the Company, at all times during the Term is and shall be complete and true in all material respects and will, to the best of its knowledge and belief, not contain any untrue statement of a material fact or omit to state a material fact necessary in order to make the statements thereof not misleading in light of the circumstances under which such statements are made. The Company further represents and warrants that any projections provided to AMS will have been prepared in good faith and will be based upon assumptions that, in light of the circumstances under which they are made, are reasonable. The Company acknowledges and agrees that in performing the Services AMS will be using and relying on the Information, without independent investigation, appraisal or verification, and AMS assumes no responsibility for the accuracy or completeness of the Information. The Company is solely responsible for the compliance with Laws of any presentation (written, oral, web cast or other format), press release, marketing materials, website materials, documents or disclosures created pursuant to this Agreement.

XI. Indemnification. The Company agrees to indemnify and hold harmless AMS, its controlling persons and affiliates and their respective officers, directors, shareholders, members, partners, employees, agents, advisors and affiliates and control persons of any of the above (each an "Indemnified Person") from and against all claims, liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses and disbursements of any kind whatsoever, including, without limitation, reasonable attorneys' fees (collectively, "Losses") that are related to or arise out of (A) actions taken or omitted to be taken (including any untrue statements made or any statements omitted to be made) by the Company, (B) any breach of any warranty, representation or agreement of Company contained in this Agreement, or (C) actions taken or omitted to be taken by an Indemnified Person with the consent of or in conformity with the actions or omissions of the Company. The Company shall not be responsible, however, for any Losses pursuant to the preceding sentence that are determined in a final judicial determination or final conclusion of an arbitrator engaged by the Parties pursuant to the terms of this Agreement to have resulted from gross negligence or reckless or wrongful conduct of AMS; and AMS agrees to indemnify and hold Company harmless from any Losses incurred by the Company arising solely out of: (i) the gross negligence and reckless or wrongful conduct of AMS as determined in a final judicial determination or final conclusion of an arbitrator engaged by the parties hereto pursuant to the terms of this Agreement or (ii) any breach of any warranty, representation or agreement of AMS contained in this Agreement. The Company agrees to reimburse each Indemnified Person for all reasonable out-of-pocket expenses (including reasonable fees and expenses of counsel for such Indemnified Person) of such Indemnified Person in connection with investigating, preparing, conducting or defending any such action or claim, whether or not in connection with litigation in which any Indemnified Person is a named party, or in connection with enforcing the rights of an Indemnified Person under this Agreement. The indemnity agreements under this Section shall survive the completion of the Services rendered by AMS and the termination or expiration of this Agreement.

XII. Disclosure and Confidentiality. Any advice, descriptive memoranda or other documentation rendered by AMS pursuant to this Agreement:

(A) may not be disclosed publicly or to any third party without the prior

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written approval of AMS; and (B) shall be reviewed by the Company for compliance with all Laws prior to its public dissemination. The Company shall clearly indicate to AMS any Information provided to AMS that has not been publicly disclosed. All non-public information provided by the Company to AMS shall be considered confidential information and shall be maintained as such by AMS, except as required by law or as required to enable AMS to perform its Services pursuant to this Agreement, until the same becomes known to third parties or the public without release thereof by AMS.

XIII. Restricted Securities. AMS acknowledges, accepts and understands that until and unless the same are registered under the Securities Act of 1933, as amended (the "33 Act"): (i) the Shares will be "restricted securities" as that term is defined under the 33 Act; (ii) AMS will be acquiring the Shares solely for its own account, for investment purposes and without a view towards the resale or distribution thereof; (iii) the Shares will be subject of stop transfer orders on the books and records of the Company's transfer agent and shall be imprinted with a standard form of restrictive legend; and (iv) any sale of the Shares will be accomplished only in accordance with the 33 Act and the rules and regulations of the Securities and Exchange Commission adopted thereunder.

XIV. Miscellaneous.

A. Use of AMS Name. Before the Company releases any information referring to AMS's role as the Company's investor relations consultant under this Agreement or uses AMS's name in a manner which may result in public dissemination thereof, the Company shall furnish drafts of all documents or prepared oral statements to AMS for comments, and shall not release any information relating thereto without the prior written consent of AMS, which shall not unreasonably be withheld. Nothing herein shall prevent the Company from releasing any information to the extent that such release is required by law.

B. Authorization. The Company represents and warrants that this Agreement has been duly authorized and represents the legal, valid, binding and enforceable obligation of the Company and that neither this Agreement nor the consummation of any transactions contemplated hereby requires the approval or consent of any governmental or regulatory agency or violates or conflicts with any law, regulation, contract or order binding the Company.

C. Binding Effect. The terms, provision and conditions of this Agreement are solely for the benefit of the Company and AMS and the other Indemnified Persons and their respective heirs, successors and permitted assigns and no other person or entity shall acquire or have a right by virtue of this Agreement. This Agreement may not be assigned by either Party without prior written consent of the other Party.

D. Entire Agreement. Each of the Parties hereby covenants that this Agreement is intended to and does contain and embody herein all of the understandings and agreements, both written and oral, of the parties hereby with respect to the subject matter of this Agreement, and that there exists no oral agreement or understanding, express or implied, whereby the absolute,

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final and unconditional character and nature of this Agreement shall be in any way invalidated, empowered or affected. There are no representations, warranties or covenants other than those set forth herein.

E. Amendment. No provision of this Agreement may be waived or amended except in a writing signed by both Parties. A waiver or amendment of any term or provision of this Agreement shall not be construed as a waiver or amendment of any other term or provision.

F. Counterparts. This Agreement may be executed by facsimile signatures and in multiple counterparts, each of which shall be deemed an original. It shall not be necessary that each Party executes each counterpart, or that any one counterpart be executed by more than one party so long as each Party executes at least one counterpart.

G. Validity. If any provision of this Agreement is declared by any court of competent jurisdiction to be invalid for any reason, such invalidity shall not affect the remaining provisions of this Agreement.

H. Governing Law. This Agreement shall be governed by and constructed under the laws of the State of Colorado without regard to such state's conflicts of law principles, and may be amended, modified or supplemented only by written instrument executed by Parties hereto.

I. Arbitration. All disputes, controversies or claims ("Disputes") arising out of or relating to this Agreement shall in the first instance be the subject of a meeting between a representative of each Party who has decision-making authority with respect to the matter in question. Should the meeting either not take place or not result in a resolution of the Dispute within twenty (20) business days following notice of the Dispute to the other Party, then the Dispute shall be resolved in a binding arbitration proceeding to be held in Denver, Colorado in accordance with the international rules of the American Arbitration Association. The arbitrators may award attorneys' fees and other related arbitration expenses, as well as pre- and post-judgment interest on any award of damages, to the prevailing Party, in their sole discretion. The Parties agree that a panel of three arbitrators shall be required, all of whom shall be fluent in the English language, and that the arbitration proceeding shall be conducted entirely in the English language. Any award of the arbitrators shall be deemed confidential information, except to the extent public disclosure of such information is required by applicable securities laws or regulations.

J. Notices. All notices required by the terms of this Agreement shall be in writing and delivered to the other Party at the addresses set forth below, either by personal delivery, by a recognized international overnight courier service, or by facsimile. Notices will be deemed given as of the date of receipt, which date shall be evidenced by the signature of an authorized representative of the receiving party or by written evidence of a successful transmission of either a facsimile or e-mail message.

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If to AMS:

After Market Support, LLC
Justin K. Davis
5251 DTC Parkway, Suite 1050
Greenwood Village, CO 80111-2739
(720) 489-4913 Telephone
(303) 728-3542 Fax

If to Company:

American TonerServ Corporation
Daniel Brinker
Chairman of the Board and CEO
475 Aviation Blvd., Suite 100
Santa Rosa, CA 95403
(800) 736-3515 Telephone
(707) 578-7304 Fax

If the forgoing correctly sets forth the entire understanding and agreement between the Company and AMS, please so indicate by executing this Agreement as indicated below and returning an executed copy to AMS together, whereupon this Agreement shall constitute a binding agreement as of the date first above written.

ACCEPTED AND AGREED TO:

AMERICAN TONERSERV CORPORATION

AFTER MARKET SUPPORT, LLC

*By:/s/ Daniel Brinker
Daniel Brinker, Chairman and CEO*

*By:/s/ J. Keating
Timothy J. Keating, Manager*

SECTION 302 CERTIFICATION

I, Daniel J. Brinker, certify that:

1. I have reviewed this quarterly report on Form 10-QSB of American TonerServ Corp.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the small business issuer as of, and for, the periods presented in this report;
4. The small business issuer's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the small business issuer and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the small business issuer, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the small business issuer's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the small business issuer's internal control over financial reporting that occurred during the small business issuer's most recent fiscal quarter (the small business issuer's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The small business issuer's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the small business issuer's auditors and the audit committee of the small business issuer's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the small business issuer's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the small business issuer's internal control over financial reporting.

Date: November 9, 2007

*/s/ Daniel J. Brinker
Daniel J. Brinker
Chief Executive Officer*

SECTION 302 CERTIFICATION

I, Ryan Vice, certify that:

1. I have reviewed this quarterly report on Form 10-QSB of American TonerServ Corp.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the small business issuer as of, and for, the periods presented in this report;
4. The small business issuer's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the small business issuer and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the small business issuer, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the small business issuer's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the small business issuer's internal control over financial reporting that occurred during the small business issuer's most recent fiscal quarter (the small business issuer's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The small business issuer's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the small business issuer's auditors and the audit committee of the small business issuer's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the small business issuer's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the small business issuer's internal control over financial reporting.

Date: November 9, 2007

*/s/ Ryan Vice
Ryan Vice
Chief Financial Officer*

CERTIFICATION OF CHIEF EXECUTIVE OFFICER PURSUANT TO

SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Form 10-QSB of American TonerServ Corp., a company duly formed under the laws of Delaware (the "Company"), for the quarter ended September 30, 2007, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), Daniel J. Brinker, Chief Executive Officer of the Company, hereby certifies, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, to the best of his/her knowledge, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

November 9, 2007

*/s/ Daniel J. Brinker
Daniel J. Brinker
Chief Executive Officer*

This certification accompanies this Report pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and shall not, except to the extent required by the Sarbanes-Oxley Act of 2002, be deemed filed by the Company for purposes of Section 18 of the Securities Exchange Act of 1934, as amended.

A signed original of this written statement required by Section 906 has been provided to American TonerServ Corp. and will be retained by American TonerServ Corp. and furnished to the Securities and Exchange Commission or its staff upon request.

CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER PURSUANT TO

SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Form 10-QSB of American TonerServ Corp., a company duly formed under the laws of Delaware (the "Company"), for the quarter ended September 30, 2007, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), Ryan Vice, Principal Financial Officer of the Company, hereby certifies, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, to the best of his/her knowledge, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

November 9, 2007

*/s/ Ryan Vice
Ryan Vice
Principal Financial Officer*

This certification accompanies this Report pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and shall not, except to the extent required by the Sarbanes-Oxley Act of 2002, be deemed filed by the Company for purposes of Section 18 of the Securities Exchange Act of 1934, as amended.

A signed original of this written statement required by Section 906 has been provided to American TonerServ Corp. and will be retained by American TonerServ Corp. and furnished to the Securities and Exchange Commission or its staff upon request.