CHROMALINE CORP
Form 10QSB
August 13, 2002

U.S. SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-QSB

(Mark One)

[X] Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 For the Quarterly Period Ended June 30, 2002

or

[ ] Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 For the Transition Period From ________________ to ________________.

Commission file number 000-25727

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

Minnesota	41-0730027
(State or other jurisdiction of incorporation or organization)	(I.R.S. employer identification no.)
4832 Grand Avenue Duluth, Minnesota	55807
(Address of principal executive offices)	(Zip code)

(218) 628-2217
Issuer's telephone number

Not Applicable
(Former name, former address and former fiscal year, if changed since last report)

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

State the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practical date: Common Stock, $.10

par value - 1,248,127 shares outstanding as of August 12, 2002.

Transitional Small Business Disclosure Format (check one):
Yes |_| No |X|

THE CHROMALINE CORPORATION

QUARTERLY REPORT ON FORM 10-QSB

PART I -- FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

THE CHROMALINE CORPORATION
BALANCE SHEETS

ASSETS	JUNE 30 2002 (UNAUDITED)	DECEMBE 2001
Current Assets:		
Cash and cash equivalents	$ 210,253	$ 543,6
Marketable securities	241,892	237,1
Trade receivables, less allowance for doubtful accounts of $100,000	2,099,395	1,472,9
Inventories	1,737,974	1,605,6
Prepaid expenses and other assets	233,172	118,1
Income tax refund receivable		133,0
Deferred taxes	68,000	68,0
Total current assets	4,590,686	4,178,6
PROPERTY, PLANT, AND EQUIPMENT, at cost:		
Land and building	1,355,588	1,355,5
Machinery and equipment	2,217,125	2,189,1
Office equipment	1,128,074	1,036,0
Vehicles	136,094	223,2
	4,836,881	4,804,0
Less accumulated depreciation	3,571,766	3,501,3
	1,265,116	1,302,7
PATENT, net of amortization of $37,295 and $32,788 respectively	71,983	76,4
NONCOMPETE AGREEMENT, net of amortization of $13,333 and $10,000 respectively	86,667	90,0
LICENSE AGREEMENTS, net of amortization of $520	49,480	
OTHER	187,500	187,500
DEFERRED TAXES	213,000	213,0
	$ 6,464,432	$ 6,048,4

LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	$ 422,115	$ 297,5
Line of credit	150,000	
Accrued compensation	154,199	143,3
Income tax payable	55,945	
Other accrued expenses	19,773	27,5
Total current liabilities	802,032	468,4
CONTINGENCIES		
STOCKHOLDERS' EQUITY:		
Preferred stock, par value $.10 per share; authorized 250,000 shares; issued none		
Common stock, par value $.10 per share; authorized 4,750,000 shares; issued and outstanding 1,248,127 shares and 1,271,627	124,813	127,1
Additional paid-in capital	1,269,489	1,293,4

Retained earnings	4,278,363	4,170,2
Accumulated other comprehensive income (loss)	(10,265)	(10,8
Total stockholders' equity	5,662,400	5,580,0
	$ 6,464,432	$ 6,048,4

See notes to financial statements.

THE CHROMALINE CORPORATION
STATEMENTS OF OPERATIONS (UNAUDITED)

	THREE MONTHS ENDED JUNE 30		SIX MO
	2002	2001	2002
SALES	$3,164,255	$ 2,691,234	$ 5,946,627
COSTS AND EXPENSES:			
Cost of goods sold	1,771,311	1,509,006	3,394,998
Selling, general, and administrative	1,015,296	1,030,834	1,965,857
Research and development	187,263	208,126	366,585
	2,973,870	2,747,966	5,727,440
INCOME(LOSS) FROM OPERATIONS	190,385	(56,732)	219,187
INTEREST EXPENSE	170		170
INTEREST INCOME	9,997	9,642	18,346
INCOME(LOSS) BEFORE INCOME TAXES	200,212	(47,090)	237,363
FEDERAL AND STATE INCOME TAX EXPENSE(BENEFIT)	68,971	(17,900)	83,075
NET INCOME(LOSS)	$ 131,241	$ (29,190)	$ 154,288
EARNINGS(LOSS) PER SHARE:			
Basic	$ 0.11	$ (0.02)	$ 0.12
Diluted	$ 0.11	$ (0.02)	$ 0.12

WEIGHTED AVERAGE COMMON SHARES

ASSUMED OUTSTANDING:			
Basic	1,248,127	1,271,627	1,256,002
Diluted	1,248,127	1,271,627	1,256,002

See notes to financial statements.

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THE CHROMALINE CORPORATION
STATEMENTS OF CASH FLOWS (UNAUDITED)

	SIX MONTHS ENDED JUNE 30	
	2002	2001
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 154,288	$ 59,212
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	159,805	192,487
Gain on disposed assets	(19,632)	
Changes in working capital components:		
Decrease (increase) in:		
Trade receivables	(626,413)	(58,960)
Prepaid expenses and other assets	(114,993)	(130,925)
Inventories	(132,304)	(55,979)
(Decrease) increase in:		
Accounts payable	124,559	(129,835)
Accrued expenses	3,126	(32,114)
Income taxes payable/receivable	188,975	96,414
Net cash used in operating activities	(262,587)	(59,700)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	(94,169)	(60,209)
Payment for license agreement	(50,000)	
Net activity in marketable securities	(4,176)	447,878
Note receivable		(75,000)
Net cash (used in)/provided by investing activities	(148,345)	312,669
CASH FLOWS FRON FINANCING ACTIVITIES:		
Proceeds from revolving credit agreement	150,000	
Re-purchase of company stock	(72,492)	

Net cash provided by financing activities	77,508	
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(333,426)	252,969
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	543,679	71,493
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 210,253	$ 324,462
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Income taxes paid (refunded)	$ (105,900)	$ (67,814)
NON-CASH:		
Loan receivable converted to stock	$	$ 75,000

See notes to financial statements.

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THE CHROMALINE CORPORATION

NOTES TO FINANCIAL STATEMENTS

(Unaudited)

1. Notes to Financial Statements

The balance sheet of The Chromaline Corporation (the Company) as of June 30, 2002, and the related statements of operations for the three and six months ended June 30, 2002 and 2001, and cash flows for the six months ended June 30, 2001 and 2000, have been prepared without being audited.

In the opinion of management, these statements reflect all adjustments (consisting of only normal recurring adjustments) necessary to present fairly the financial position of The Chromaline Corporation as of June 30, 2002, and the results of operations and cash flows for all periods presented.

Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America, have been condensed or omitted. Therefore, these statements should be read in conjunction with the financial statements and notes thereto included in the Company's December 31, 2001 Form 10-KSB.

The results of operations for interim periods are not necessarily indicative of results that will be realized for the full fiscal year.

2. Inventory

The major components of inventory at June 30, 2002 and December 31, 2001 are as follows:

	June 30, 2002	Dec 31, 2001
Raw materials	$ 678,918	$ 638,424
Work-in-progress	281,884	236,493
Finished goods	1,003,720	942,301
Reduction to LIFO cost	(226,548)	(211,548)
Total Inventory	$1,737,974	$1,605,670

3. Stockholders' Equity

		Six Months Ended June 30, 2002
Total Stockholders' Equity-December 31, 2001		$ 5,580,040
Net income	$154,288	
Unrealized gain on available-for-sale investments	564	
Comprehensive income		154,852
Stock re-purchase		(72,492)
Total Stockholders' Equity-June 30, 2002		$ 5,662,400

4. Net Income per Common Share

Basic and diluted earnings per share are presented in accordance with Statement of Financial Accounting Standards (SFAS) No. 128, "Earnings per Share". The difference between average common shares and average common and common equivalent shares is the result of outstanding stock options.

THE CHROMALINE CORPORATION

The information presented below in Management's Discussion and Analysis of Financial Condition and Results of Operations contains forward-looking statements within the meaning of the safe harbor provisions of Section 21E of the Securities Exchange Act of 1934, as amended. Such statements are subject to risks and uncertainties, including those discussed under "Factors that May Affect Future Results" below, that could cause actual results to differ materially from those projected. Because actual results may differ, readers are cautioned not to place undue reliance on these forward-looking statements. Certain forward-looking statements are indicated by italics.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

The following management's discussion and analysis focuses on those factors that had a material effect on the Company's financial results of operations during the second quarter of 2002, the six months ended June 30, 2002 and the same periods of 2001. It should be read in connection with the Company's unaudited financial statements and notes thereto included in this Form 10-QSB.

FACTORS THAT MAY AFFECT FUTURE RESULTS

Certain statements made in this Quarterly Report on Form 10-QSB, which are summarized below, are forward-looking statements that involve risks and uncertainties, and actual results may be materially different. Factors that could cause actual results to differ include, but are not limited to, those identified as follows:

- The Company's belief that the recent draw on its line of credit will be repaid in a short period of time with cash from operations--Changes in anticipated operating results resulting from decreased sales or increased operating expenses, or changes in the Company's anticipated spending requirements, may impact the timing or ability of the Company to make this repayment.

- The belief that the Company's current financial resources, cash generated from operations and the Company's capacity for debt and/or equity financing will be sufficient to fund current and anticipated business operations and capital expenditures. The belief that the Company's low debt levels and available line of credit make it unlikely that a decrease in product demand would impair the Company's ability to fund operations--Changes in anticipated operating results, credit availability, equity market conditions or the Company's debt levels may further enhance or inhibit the Company's ability to maintain or raise appropriate levels of cash.

- The Company's expectation that total capital expenditures in 2002 will be less than in 2001 and will be funded with cash generated from operating activities--This expectation may be affected by changes in the Company's anticipated capital expenditure requirements resulting from unforeseen required maintenance or repairs. The funding of these expenditures may be affected by changes in anticipated operating results resulting from decreased sales or increased operating expenses.

- The Company's belief that the quality of its receivables is high and that strong internal controls are in place to maintain proper collections--This belief may be impacted by domestic economic conditions, by economic, political, regulatory or social conditions in foreign markets, or by the failure of the Company to properly implement or maintain internal controls.

- The Company's belief that its vulnerability to foreign currency fluctuations and general economic conditions in foreign countries is not significant--This belief may be impacted by economic, political and social conditions in foreign markets and changes in regulatory and competitive conditions or a change in the amount or geographic focus of the Company's international sales.

- The Company's plans to continue to invest in research and development efforts, expedite internal product development and invest in technological alliances, as well as the expected focus and results of such investments--These plans and expectations may be impacted by general market conditions,

unanticipated changes in expenses or sales, delays in the development of new products, technological advances, the ability to find suitable and willing technology partners or other changes in competitive or market conditions.

- The Company's efforts to grow its international business--These efforts may be impacted by economic, political and social conditions in current and anticipated foreign markets, regulatory conditions in such markets, unanticipated changes in expenses or sales, changes in competitive conditions or other barriers to entry or expansion.

CRITICAL ACCOUNTING POLICIES

The Company prepares the financial statements in conformity with accounting principles generally accepted in the United States of America. Therefore, the Company is required to make certain estimates, judgments and assumptions that the Company believes are reasonable based upon the information available. These estimates and assumptions affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the periods presented. The accounting policies, which Chromaline believes are the most critical to aid in fully understanding and evaluating its reported financial results, include the following:

Accounts Receivable. The Company performs ongoing credit evaluations of its customers and adjusts credit limits based upon payment history and the customer's current credit worthiness, as determined by review of the current credit information. The Company continuously monitors collections and payments from its customers and maintains a provision for estimated credit losses based upon historical experience and any specific customer collection issues that have been identified. While such credit losses have historically been within expectations and the provisions established, the Company cannot guarantee that it will continue to experience the same collection history that has occurred in the past.

Inventory. Inventories are valued at the lower rate of cost or market value. The Company monitors its inventory for obsolescence and records reductions in cost when required.

RESULTS OF OPERATIONS

QUARTER ENDED JUNE 30, 2002 COMPARED TO QUARTER ENDED JUNE 30, 2001

Sales. The Company experienced record sales during the second quarter of 2002 of $3.16 million, which were 17.5% higher than the $2.69 million in sales during the same period in 2001. Sales were strong across most geographical markets and products lines.

Cost of Goods Sold. Cost of goods sold during the second quarter of 2002 was $1.77 million, or 56.0% of sales, compared to $1.51 million, or 56.1% of sales, during the same period in 2001. Quarter over quarter margins were essentially unchanged, ending the recent decrease the Company has experienced in this area due to a shifting product mix. The Company's sales of higher margin film products increased helping to mitigate the effects of increased sales of lower margin glass and crystal products

Selling, General and Administrative Expenses. Selling, general and administrative expenses decreased to $1.02 million, or 32.3% of sales, in the second quarter of 2002, from $1.03 million, or 38.3% of sales, for the same period in 2001. Expenses were lower in the second quarter of 2002 due to decreased headcount, travel, legal fees and automobile expenses. These lower expenses were partially offset by higher trade show costs as the Company has increased its presence at industry events in 2002. The second quarter of 2001 included a $15,000 increase in the Company's bad debt allowance. The second quarter of 2001 also included legal fees of $42,000 related to negotiation of an agreement with The Aicello Corporation, N.A. ("Aicello") ending an ongoing its lawsuit.

Research and Development Expenses. Research and development expenses during the second quarter of 2002 were $187,000, or 5.9% of sales, versus $208,000, or 7.7% of sales, for the same period in 2001. The reduction was due to lower costs for production trials, lab supplies and consulting fees.

Interest Expense. The Company incurred minimal interest expense on a $150,000 loan drawn from its revolving credit facility on June 20, 2002. This draw funded a $125,000 royalty payment to Aicello, which was the second of two royalty payments required under the agreement made in January 2001.

Interest Income. Interest income was essentially unchanged at $10,000 for the second quarter of 2002. Interest is earned primarily from government obligation revenue bonds of various municipalities and school districts in the State of Minnesota.

Income Taxes. Income taxes increased to $69,000, or an effective rate of 35%, during the second quarter of 2002, versus an income tax benefit of

$18,000, or an effective rate of 38%, for the second quarter of 2001.

SIX MONTHS ENDED JUNE 30, 2002 COMPARED TO THE SIX MONTHS ENDED JUNE 30, 2001

Sales. The Company's sales during the first six months of 2002 increased to $5.95 million, or 7.2%, from $5.55 million in sales during the same period in 2001. Sales growth in the first quarter was concentrated in our abrasive etching line and in sales to Asia. In the second quarter, the sales growth became more broad-based among geographical markets and product lines.

Cost of Goods Sold. Cost of goods sold during the first half of 2002 was $3.39 million, or 57.0% of sales, compared to $3.05 million, or 55.0% of sales, during the same period in 2001. The cost of goods sold differential experienced in the first quarter of 2002 of 58.0% of sales versus 54.0% of sales in the first quarter of 2001 improved to approximately 56.0% for the second quarters of both 2002 and 2001. Changes in these costs, both in absolute dollars and as a percentage of sales, are driven primarily by a shift in product mix. During the first quarter of 2002, more lower-margin emulsion and glass was sold compared to the first quarter of 2001. During the second quarter of 2002, the product mix shifted towards higher margin films.

Selling, General and Administrative Expenses. Selling, general and administrative expenses decreased to $1.97 million, or 33.1% of sales, in the first half of 2002, from $2.04 million, or 36.7% of sales, for the same period in 2001. The Company is seeking to control overhead costs in several areas, including headcount, legal fees, travel, supplies and automobile expenses. The first six months of 2001 included a $45,000 increase in the Company's bad debt allowance reflecting the risk associated with an increased presence in Europe and India. It also included legal fees of $104,000 related to negotiation of the agreement with Aicello.

Research and Development Expenses. Research and development expenses during the first half of 2002 were $367,000, or 6.2% of sales, versus $401,000, or 7.2% of sales, for the same period in 2001. The reduction was due to lower costs for production trials, lab supplies and consulting fees.

Interest Expense. The Company incurred minimal interest expense on a $150,000 loan drawn from its revolving credit facility on June 20, 2002. This draw funded a $125,000 royalty payment to Aicello, which was the second of two royalty payments required under the agreement made in January 2001.

Interest Income. Interest income decreased to $18,000 for the first half of 2002 compared to $28,000 for the same period in 2001. The decrease was due to the utilization of invested cash resources for the repurchase of 23,500 shares of the Company's Common Stock in the first quarter of 2002.

Income Taxes. Income taxes increased to $83,000, or an effective rate of 35%, during the first half of 2002 from $29,000, or an effective rate of 33%, for the first half of 2001.

LIQUIDITY AND CAPITAL RESOURCES

The Company has financed its operations principally with funds generated from operations. These funds have been sufficient to cover the Company's normal operating expenditures, annual capital requirements, and research and development expenditures.

Cash and cash equivalents were $210,000 and $324,000 at June 30, 2002 and June 30, 2001, respectively. The Company used $263,000 in cash for operating activities during the three months ended June 30, 2002 and used

$60,000 in cash for operating activities during the same period in 2001. Cash used for operating activities is primarily the result of adjusting net income for non-cash depreciation.

During the first six months of 2002, trade receivables increased to $626,000. The increase in receivables was driven primarily by substantially higher sales over previous periods, as the second quarter of 2002 provided record sales for the Company. International sales were up over 30% in the second quarter. Payment terms for international customers vary, but average 60 to 90 days. The Company believes that the quality of its receivables is high and that strong internal controls are in place to maintain proper collections. Inventory levels increased $132,000, mainly in finished goods. Prepaid expenses increased $115,000, primarily due to a $125,000 prepaid royalty payment to Aicello. Accounts payable increased $125,000, reflecting timing of payments for inventory to suppliers. Accrued expenses increased $3,000.

During the first six months of 2001, trade receivables increased by $59,000, reflecting increased sales of Nichols products and crystal glass and sales to the European region. Prepaid expenses increased $131,000, reflecting a $150,000 prepaid royalty payment to Aicello. Inventories increased $56,000, primarily due to an increase in raw materials. Accounts payable decreased $130,000 and accrued expenses decreased $32,000.

The Company used $148,000 and provided $313,000, in cash for investing activities during the six months ended June 30, 2002 and June 30, 2001, respectively. During the first six months of 2002, the Company purchased $94,000 in capital equipment and business software. During the first half of 2002, the Company purchased, for $50,000, a license for technology applicable to its abrasive etching business. During the first half of 2001, the Company purchased $60,000 in capital equipment. During this same period, the Company sold a portion of its investment holdings in general revenue obligation bonds. These proceeds were used to participate in a $50,000 bridge loan to Apprise Technologies of Duluth, Minnesota that converted into stock and warrants on July 1, 2001. These proceeds also funded the $150,000 prepaid royalty payment made to Aicello as part of the license agreement and funded the $73,000 in prepaid production costs to Apprise for a radiometer project.

During the first quarter of 2002, the Company repurchased 23,500 shares of its outstanding Common Stock for $72,000. This is an ongoing program in which the Company may repurchase up to 50,000 shares of its Common Stock on the open market.

A bank line of credit exists providing for borrowings of up to $1,250,000. Outstanding debt under this line of credit is collateralized by accounts receivable and inventory and bears interest at 2.25 percentage points over the 30-day LIBOR rate. The Company made a $150,000 draw on this line of credit on June 20, 2002, primarily to cover a royalty payment to Aicello. The Company expects to repay this draw within a short period of time, utilizing cash from operations.

The Company believes that current financial resources, its line of credit, cash generated from operations and the Company's capacity for debt and/or equity financing will be sufficient to fund current and anticipated business operations. The Company also believes that its low debt levels and available line of credit make it unlikely that a decrease in demand for the Company's products would impair the Company's ability to fund operations. Future activities undertaken to expand the Company's business may include acquisitions, building expansion and additions, equipment additions, new product development or pursuit of marketing opportunities.

CAPITAL EXPENDITURES

Through June 30, 2002, the Company spent $94,169 on capital expenditures in 2002. This spending included plant equipment upgrades to improve efficiency and reduce operating costs, additions to the Company's new business software implemented in January 2002, the purchase of a new vehicle under the Company's rotating replacement policy for outside salespeople and improvements to the Company's trade show booths.

Commitments for additional capital expenditures of $50,000 include ongoing manufacturing equipment upgrades, development equipment to modernize the capabilities and processes of the Company's research and development laboratory to improve measurement and quality control processes. Total 2002 commitments are expected to be less than 2001 capital expenditures and are expected to be funded with cash generated from operating activities.

INTERNATIONAL ACTIVITY

The Company markets its products to over 50 countries in North America, Europe, Latin America, Asia and other parts of the world. Foreign sales were approximately 31% of total sales for the three months ended June 30, 2002. This compares with foreign sales of 28% of total sales during the same period in 2001. Sales to foreign markets for the six months ended June 30, 2002 and 2001 were both 32% of total sales. International sales in the second quarter of 2002 were higher as a percentage to total sales as compared to the same period in 2001. The fluctuation of certain foreign currencies has not significantly impacted the Company's operations because the Company's foreign sales are not concentrated in any one region of the world. The Company believes its vulnerability to uncertainties due to foreign currency fluctuations and general economic conditions in foreign countries is not significant.

Substantially all of the Company's foreign transactions are negotiated, invoiced and paid in U.S. dollars. A portion of the Company's foreign sales are invoiced and paid in Euros. Chromaline has not implemented a hedging strategy to reduce the risk of foreign currency translation exposures, which management does not believe to be significant based on the scope and geographic diversity of the Company's foreign operations as of June 30, 2002.

FUTURE OUTLOOK

Chromaline has invested over 6% of its sales dollars in research and development over the past several years. The Company plans to maintain its efforts in this area and expedite internal product development as well as form technological alliances with outside experts to ensure commercialization of new product opportunities.

In addition to its traditional emphasis on domestic markets, the Company will continue efforts to grow its business internationally by attempting to develop new markets and expanding market share where it has already established a presence.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

None

ITEM 2. CHANGES IN SECURITIES

None

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Not applicable

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

The Company's Annual Meeting was held April 25, 2002. The shareholders took the following action:

The shareholders elected six directors to hold office until the next annual meeting of shareholders. The shareholders present in person of by proxy cast the following numbers of votes in connection with the election of directors, resulting in the election of all nominees:

	Votes For	Votes Against
Charles H. Andresen	1,125,307	6,710
David O. Harris	1,125,307	6,710
Gerald W. Simonson	1,125,307	6,710
William C. Ulland	1,125,307	6,710
Rondi Erickson	1,125,307	6,710
H. Leigh Severance	1,125,307	6,710

ITEM 5. OTHER INFORMATION

None

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(A) EXHIBITS

The following exhibits are filed as part of this Quarterly Report on Form 10-QSB for the quarterly period ended June 30, 2002:

Exhibit	Description
3.1	Restated Articles of Incorporation of Company, as amended.(1)
3.2	By-Laws of the Company, as amended.(1)
11	Computation of Net Earnings per Common Share

Copies of Exhibits will be furnished upon request and payment of the Company's reasonable expenses in furnishing the Exhibits.

(B) REPORTS ON FORM 8-K

No reports on Form 8-K were filed by the registrant during the quarterly period ended June 30, 2002.

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1 Incorporated by reference to the like numbered Exhibit to the Company's Registration Statement on Form 10-SB (File No. 000-25727).

THE CHROMALINE CORPORATION

SIGNATURES

In accordance with the requirements of the Securities Exchange Act of 1934, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

THE CHROMALINE CORPORATION

DATE: August 13, 2002

By: /s/ Jeffery A. Laabs

Jeffery A. Laabs,
Chief Financial Officer, Treasurer and Secretary
(Duly authorized officer and Principal Financial Officer)

CERTIFICATION UNDER SECTION 906
OF THE SARBANES-OXLEY ACT OF 2002

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, each of the undersigned certifies that this periodic report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in this periodic report fairly presents, in all material respects, the financial condition and results of operations of The Chromaline Corporation.

DATE: August 13, 2002 By: /s/ William C. Ulland

William C. Ulland,
Chairman, Chief Executive Officer and
President

DATE: August 13, 2002 By: /s/ Jeffery A. Laabs

Jeffery A. Laabs,
Chief Financial Officer, Treasurer and
Secretary

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INDEX TO EXHIBITS

Exhibit	Description	
3.1	Restated Articles of Incorporation of Company, as amended......................	Inco
3.2	By-Laws of the Company, as amended..	Inco
11	Computation of Net Earnings per Common Share...................................	File

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