



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; 1,298,056 shares outstanding as of April 15, 2000.

Transitional Small Business Disclosure Format (check one): Yes; / No; /x;

<HR NOSHADE>  
<HR NOSHADE>

<HR NOSHADE>

<!-- ZEQ.=1,SEQ=1,EFW="2014196",CP="CHROMALINE CORPORATION",DN="1",CHK=99104,FOLIO=blank,FILE='DISK014:[00STP3.00STP1553]BA1553A.;3',USER='HRANKIN',CD=';9-MAY-2000;19:41 -->  
<!-- Generated by Merrill Corporation (www.merrillcorp.com) -->  
<H2><FONT SIZE=2> </FONT></H2>

<BR>  
<P ALIGN="CENTER"><FONT SIZE=2><A NAME="bg1553\_the\_chromaline\_corporat\_bg102315"> </A></FONT> <FONT SIZE=2><B>THE CHROMALINE CORPORATION<BR>QUARTERLY REPORT ON FORM 10-QSB </B></FONT></P>

<!-- User-specified TAGGED TABLE -->  
<TABLE WIDTH="78%" BORDER=0 CELLSPACING=0 CELLPADDING=0>  
<TR VALIGN="BOTTOM">  
<TH WIDTH="11%" ALIGN="LEFT"><FONT SIZE=2><B>PART I.</B></FONT><BR></TH>  
<TH WIDTH="5%"><FONT SIZE=2><B>FINANCIAL INFORMATION</B></FONT><BR></TH>  
<TH WIDTH="71%" ALIGN="LEFT"><FONT SIZE=2><B>PAGE NO.</B></FONT><HR NOSHADE></TH>  
<TH WIDTH="5%"><FONT SIZE=1><B>PAGE NO.</B></FONT><HR NOSHADE></TH>  
<TH WIDTH="8%" ALIGN="CENTER"><FONT SIZE=1><B>PAGE NO.</B></FONT><HR NOSHADE></TH></TR>

<TR BGCOLOR="#CCEEFF" VALIGN="TOP">  
<TD WIDTH="11%"><FONT SIZE=2><B>PART I.</B></FONT></TD>  
<TD WIDTH="5%"><FONT SIZE=2><B>FINANCIAL INFORMATION</B></FONT></TD>  
<TD WIDTH="71%"><FONT SIZE=2><B>PAGE NO.</B></FONT></TD>  
<TD WIDTH="5%"><FONT SIZE=2><B>PAGE NO.</B></FONT></TD>  
<TD WIDTH="8%"><FONT SIZE=2><B>PAGE NO.</B></FONT></TD></TR>

<TR BGCOLOR="White" VALIGN="TOP">  
<TD WIDTH="11%"><FONT SIZE=2><B>PART I.</B></FONT><BR>Item 1.</FONT></TD>  
<TD WIDTH="5%"><FONT SIZE=2><B>FINANCIAL INFORMATION</B></FONT><BR><B>Balance Sheets</B></FONT></TD>  
<TD WIDTH="71%"><FONT SIZE=2><B>Balance Sheets as of March 31, 2000 (unaudited) and December 31, 1999 (unaudited)</B></FONT></TD>  
<TD WIDTH="5%"><FONT SIZE=2><B>STATEMENTS OF EARNINGS</B></FONT><BR><B>Statements of Earnings for the Three Months Ended March 31, 2000 and 1999 (unaudited)</B></FONT></TD>  
<TD WIDTH="8%" ALIGN="CENTER"><FONT SIZE=2><B>PAGE NO.</B></FONT><BR>3</FONT></TD></TR>

<TR BGCOLOR="White" VALIGN="TOP">  
<TD WIDTH="11%"><FONT SIZE=2><B>PART I.</B></FONT><BR><B>STATEMENTS OF EARNINGS</B></FONT><BR><B>Statements of Earnings for the Three Months Ended March 31, 2000 and 1999 (unaudited)</B></FONT></TD>  
<TD WIDTH="5%"><FONT SIZE=2><B>STATEMENTS OF CASH FLOWS</B></FONT><BR><B>Statements of Cash Flows for the Three Months Ended March 31, 2000 and 1999 (unaudited)</B></FONT></TD>  
<TD WIDTH="71%"><FONT SIZE=2><B>STATEMENTS OF CASH FLOWS</B></FONT><BR><B>Statements of Cash Flows for the Three Months Ended March 31, 2000 and 1999 (unaudited)</B></FONT></TD>  
<TD WIDTH="5%"><FONT SIZE=2><B>STATEMENTS OF CASH FLOWS</B></FONT><BR><B>Statements of Cash Flows for the Three Months Ended March 31, 2000 and 1999 (unaudited)</B></FONT></TD>  
<TD WIDTH="8%" ALIGN="CENTER"><FONT SIZE=2><B>PAGE NO.</B></FONT><BR>5</FONT></TD></TR>

<TR BGCOLOR="White" VALIGN="TOP">  
<TD WIDTH="11%"><FONT SIZE=2><B>PART I.</B></FONT><BR><B>STATEMENTS OF CASH FLOWS</B></FONT><BR><B>Statements of Cash Flows for the Three Months Ended March 31, 2000 and 1999 (unaudited)</B></FONT></TD>  
<TD WIDTH="5%"><FONT SIZE=2><B>STATEMENTS OF CASH FLOWS</B></FONT><BR><B>Statements of Cash Flows for the Three Months Ended March 31, 2000 and 1999 (unaudited)</B></FONT></TD>  
<TD WIDTH="71%"><FONT SIZE=2><B>STATEMENTS OF CASH FLOWS</B></FONT><BR><B>Statements of Cash Flows for the Three Months Ended March 31, 2000 and 1999 (unaudited)</B></FONT></TD>  
<TD WIDTH="5%"><FONT SIZE=2><B>STATEMENTS OF CASH FLOWS</B></FONT><BR><B>Statements of Cash Flows for the Three Months Ended March 31, 2000 and 1999 (unaudited)</B></FONT></TD>  
<TD WIDTH="8%" ALIGN="CENTER"><FONT SIZE=2><B>PAGE NO.</B></FONT><BR>5</FONT></TD></TR>

<TR BGCOLOR="White" VALIGN="TOP">  
<TD WIDTH="11%"><FONT SIZE=2><B>PART I.</B></FONT><BR><B>STATEMENTS OF CASH FLOWS</B></FONT><BR><B>Statements of Cash Flows for the Three Months Ended March 31, 2000 and 1999 (unaudited)</B></FONT></TD>  
<TD WIDTH="5%"><FONT SIZE=2><B>STATEMENTS OF CASH FLOWS</B></FONT><BR><B>Statements of Cash Flows for the Three Months Ended March 31, 2000 and 1999 (unaudited)</B></FONT></TD>  
<TD WIDTH="71%"><FONT SIZE=2><B>STATEMENTS OF CASH FLOWS</B></FONT><BR><B>Statements of Cash Flows for the Three Months Ended March 31, 2000 and 1999 (unaudited)</B></FONT></TD>  
<TD WIDTH="5%"><FONT SIZE=2><B>STATEMENTS OF CASH FLOWS</B></FONT><BR><B>Statements of Cash Flows for the Three Months Ended March 31, 2000 and 1999 (unaudited)</B></FONT></TD>  
<TD WIDTH="8%" ALIGN="CENTER"><FONT SIZE=2><B>PAGE NO.</B></FONT><BR>5</FONT></TD></TR>

<TD WIDTH="11%"><FONT SIZE=2>&nbsp;<BR>  
&nbsp;</FONT></TD>  
<TD WIDTH="5%"><FONT SIZE=2>&nbsp;<BR>&nbsp;</FONT></TD>  
<TD WIDTH="71%"><FONT SIZE=2>&nbsp;<BR>  
Notes to Financial Statements (unaudited)</FONT></TD>  
<TD WIDTH="5%"><FONT SIZE=2>&nbsp;<BR>&nbsp;</FONT></TD>  
<TD WIDTH="8%" ALIGN="CENTER"><FONT SIZE=2>&nbsp;<BR>  
&nbsp;</FONT></TD>  
</TR>  
<TR BGCOLOR="#CCEEFF" VALIGN="TOP">  
<TD WIDTH="11%"><FONT SIZE=2>&nbsp;<BR>  
Item 2.</FONT></TD>  
<TD WIDTH="5%"><FONT SIZE=2>&nbsp;<BR>&nbsp;</FONT></TD>  
<TD WIDTH="71%"><FONT SIZE=2>&nbsp;<BR>  
Management's Discussion and Analysis of Financial Condition and Results of Operations</FONT></TD>  
<TD WIDTH="5%"><FONT SIZE=2>&nbsp;<BR>&nbsp;</FONT></TD>  
<TD WIDTH="8%" ALIGN="CENTER"><FONT SIZE=2>&nbsp;<BR>  
&nbsp;</FONT></TD>  
</TR>  
<TR BGCOLOR="White" VALIGN="TOP">  
<TD WIDTH="11%"><FONT SIZE=2>&nbsp;<BR></FONT> <FONT SIZE=2><B>PART II.</B></FONT></TD>  
<TD WIDTH="5%"><FONT SIZE=2><B>&nbsp;<BR>&nbsp;</B></FONT></TD>  
<TD WIDTH="71%"><FONT SIZE=2><B>&nbsp;<BR>  
OTHER INFORMATION</B></FONT></TD>  
<TD WIDTH="5%"><FONT SIZE=2>&nbsp;<BR>&nbsp;</FONT></TD>  
<TD WIDTH="8%" ALIGN="CENTER"><FONT SIZE=2>&nbsp;<BR>  
12</FONT></TD>  
</TR>  
<TR BGCOLOR="#CCEEFF" VALIGN="TOP">  
<TD WIDTH="11%"><FONT SIZE=2>&nbsp;<BR>&nbsp;</FONT></TD>  
<TD WIDTH="5%"><FONT SIZE=2>&nbsp;<BR>&nbsp;</FONT></TD>  
<TD WIDTH="71%"><FONT SIZE=2>&nbsp;<BR>&nbsp;</FONT> <FONT SIZE=2><B>SIGNATURES</B></FONT></TD>  
<TD WIDTH="5%"><FONT SIZE=2>&nbsp;<BR>&nbsp;</FONT></TD>  
<TD WIDTH="8%" ALIGN="CENTER"><FONT SIZE=2>&nbsp;<BR>  
14</FONT></TD>  
</TR>  
</TABLE>  
<!-- end of user-specified TAGGED TABLE -->  
<P ALIGN="CENTER"><FONT SIZE=2>2</FONT></P>

<P><FONT SIZE=2><HR  
NOSHAE></FONT></P>

<!-- ZEQU=1,SEQ=2,EFW="2014196",CP="CHROMALINE CORPORATION",DN="1",CHK=596332,FOLIO=2,FILE='DISK014:  
[00STP3.00STP1553]BG1553A.;12',USER='HRANKIN',CD=';9-MAY-2000;19:41 -->  
<!-- Generated by Merrill Corporation (www.merrillcorp.com) -->  
<H2><FONT SIZE=2> </FONT></H2>  
<BR>  
<P ALIGN="CENTER"><FONT SIZE=2><A  
NAME="del1553\_part\_i\_#151;financial\_information"> </A></FONT> <FONT SIZE=2><B>PART I&#151;FINANCIAL INFORMATION </B>  
</FONT></P>

<P><FONT SIZE=2><B>Item 1. Financial Statements</B></FONT></P>

<P ALIGN="CENTER"><FONT SIZE=2><B>THE CHROMALINE CORPORATION</B></FONT></P>

<P ALIGN="CENTER"><FONT SIZE=2><B>BALANCE SHEETS</B></FONT></P>

<!-- User-specified TAGGED TABLE -->  
<TABLE WIDTH="87%" BORDER=0 CELLSPACING=0 CELLPADDING=0>  
<TR VALIGN="BOTTOM">  
<TH WIDTH="67%" ALIGN="LEFT"><FONT SIZE=1>&nbsp;</FONT><BR></TH>  
<TH WIDTH="2%"><FONT SIZE=1>&nbsp;</FONT></TH>  
<TH WIDTH="13%" COLSPAN=2 ALIGN="CENTER"><FONT SIZE=1><B>March 31<BR>  
2000</B></FONT><HR NOSHAE></TH>  
<TH WIDTH="2%"><FONT SIZE=1>&nbsp;</FONT></TH>  
<TH WIDTH="15%" COLSPAN=2 ALIGN="CENTER"><FONT SIZE=1><B>December 31<BR>  
1999</B></FONT><HR NOSHAE></TH>  
<TH WIDTH="1%"><FONT SIZE=1>&nbsp;</FONT></TH>  
</TR>  
<TR VALIGN="BOTTOM">  
<TH WIDTH="67%" ALIGN="LEFT"><FONT SIZE=1>&nbsp;</FONT><BR></TH>  
<TH WIDTH="2%"><FONT SIZE=1>&nbsp;</FONT></TH>  
<TH WIDTH="13%" COLSPAN=2 ALIGN="CENTER"><FONT SIZE=1><B>(unaudited)<BR></B></FONT><BR></TH>  
<TH WIDTH="2%"><FONT SIZE=1>&nbsp;</FONT></TH>  
<TH WIDTH="15%" COLSPAN=2 ALIGN="LEFT"><FONT SIZE=1>&nbsp;</FONT><BR></TH>  
<TH WIDTH="1%"><FONT SIZE=1>&nbsp;</FONT></TH>  
</TR>  
<TR BGCOLOR="#CCEEFF" VALIGN="BOTTOM">  
<TD WIDTH="99%" COLSPAN=7 ALIGN="CENTER"><FONT SIZE=2><B>ASSETS</B></FONT></TD>  
<TD WIDTH="1%"><FONT SIZE=1>&nbsp;</FONT></TD>  
</TR>





			2,916,413			2,814,934	
<TR VALIGN="TOP">							
		<HR NOSHADE>				<HR NOSHADE>	
		1,526,246			1,555,731		
<TR BGCOLOR="#CCEEFF" VALIGN="BOTTOM">							
PATENT, net of amortization of \$17,017 and \$14,764 respectively			92,261			94,514	
<TR BGCOLOR="White" VALIGN="BOTTOM">							
OTHER		53,997			38,733		
<TR BGCOLOR="#CCEEFF" VALIGN="BOTTOM">							
DEFERRED TAXES			30,000			30,000	
<TR VALIGN="TOP">							
		<HR NOSHADE>				<HR NOSHADE>	
		6,355,431			6,159,003		
<TR VALIGN="TOP">							
		<HR NOSHADE SIZE=4>				<HR NOSHADE SIZE=4>	
<TR BGCOLOR="#CCEEFF" VALIGN="BOTTOM">							
<TD WIDTH="99%" COLSPAN=7 ALIGN="CENTER"><FONT SIZE=1>&nbsp; <FONT SIZE=2><B>LIABILITIES AND STOCKHOLDERS'							

EQUITY	
CURRENT LIABILITIES:	
Accounts payable	342,671
\$	
187,125	
Accrued compensation	253,723
203,688	
Other accrued expenses	22,730
24,064	
Accrued legal costs (Note 3)	27,813
Income taxes payable	54,838
644,063	
497,528	
CONTINGENCIES (Note 3)	





<TD WIDTH="13%" ALIGN="RIGHT"><FONT SIZE=1>5,661,475</FONT></TD>  
<TD WIDTH="1%"><FONT SIZE=1>&nbsp;</FONT></TD>  
</TR>  
<TR VALIGN="TOP">  
<TD WIDTH="67%"><FONT SIZE=1>&nbsp;</FONT></TD>  
<TD WIDTH="2%"><FONT SIZE=1>&nbsp;</FONT></TD>  
<TD WIDTH="13%" COLSPAN=2 ALIGN="RIGHT"><HR NOSHADE></TD>  
<TD WIDTH="2%"><FONT SIZE=1>&nbsp;</FONT></TD>  
<TD WIDTH="15%" COLSPAN=2 ALIGN="RIGHT"><HR NOSHADE></TD>  
<TD WIDTH="1%"><FONT SIZE=1>&nbsp;</FONT></TD>  
</TR>  
<TR BGCOLOR="#CCEEFF" VALIGN="BOTTOM">  
<TD WIDTH="67%"><FONT SIZE=1>&nbsp;</FONT></TD>  
<TD WIDTH="2%"><FONT SIZE=1>&nbsp;</FONT></TD>  
<TD WIDTH="2%"><FONT SIZE=1>&nbsp;</FONT></TD>  
<TD WIDTH="11%" ALIGN="RIGHT"><FONT SIZE=1>6,355,431</FONT></TD>  
<TD WIDTH="2%"><FONT SIZE=1>&nbsp;</FONT></TD>  
<TD WIDTH="2%"><FONT SIZE=1>&nbsp;</FONT></TD>  
<TD WIDTH="13%" ALIGN="RIGHT"><FONT SIZE=1>6,159,003</FONT></TD>  
<TD WIDTH="1%"><FONT SIZE=1>&nbsp;</FONT></TD>  
</TR>  
<TR VALIGN="TOP">  
<TD WIDTH="67%"><FONT SIZE=1>&nbsp;</FONT></TD>  
<TD WIDTH="2%"><FONT SIZE=1>&nbsp;</FONT></TD>  
<TD WIDTH="13%" COLSPAN=2 ALIGN="RIGHT"><HR NOSHADE SIZE=4></TD>  
<TD WIDTH="2%"><FONT SIZE=1>&nbsp;</FONT></TD>  
<TD WIDTH="15%" COLSPAN=2 ALIGN="RIGHT"><HR NOSHADE SIZE=4></TD>  
<TD WIDTH="1%"><FONT SIZE=1>&nbsp;</FONT></TD>  
</TR>  
</TABLE>  
<!-- end of user-specified TAGGED TABLE -->  
<P ALIGN="CENTER"><FONT SIZE=2>See notes to financial statements.</FONT></P>

<P ALIGN="CENTER"><FONT SIZE=2>3</FONT></P>

<P><FONT SIZE=2><HR  
NOSHADE></FONT></P>

<!-- ZEQ.=1,SEQ=3,EFW="2014196",CP="CHROMALINE CORPORATION",DN="1",CHK=885341,FOLIO=3,FILE='DISK014:  
[00STP3.00STP1553]DE1553A.;5',USER='HRANKIN',CD=';9-MAY-2000;19:43 -->

<BR>  
<P ALIGN="CENTER"><FONT SIZE=2><B>THE CHROMALINE CORPORATION</B></FONT></P>

<P ALIGN="CENTER"><FONT SIZE=2><B>STATEMENTS OF EARNINGS (Unaudited)</B></FONT></P>

<!-- User-specified TAGGED TABLE -->

TH WIDTH="68%" ALIGN="LEFT"><FONT SIZE=2>&nbsp;</FONT> </TH>		TH WIDTH="2%"><FONT SIZE=1>&nbsp;</FONT></TH>		TH WIDTH="30%" COLSPAN=5 ALIGN="CENTER"><FONT SIZE=1><B>Three Months Ended March 31</B></FONT><HR NOSHADE></TH>	
TH WIDTH="68%" ALIGN="LEFT"><FONT SIZE=1>&nbsp;</FONT> </TH>		TH WIDTH="2%"><FONT SIZE=1>&nbsp;</FONT></TH>		TH WIDTH="14%" COLSPAN=2 ALIGN="CENTER"><FONT SIZE=1><B>2000</B></FONT><HR NOSHADE></TH>	
TH WIDTH="14%" COLSPAN=2 ALIGN="CENTER"><FONT SIZE=1><B>1999</B></FONT><HR NOSHADE></TH>		TH WIDTH="2%"><FONT SIZE=1>&nbsp;</FONT></TH>		TH WIDTH="14%" COLSPAN=2 ALIGN="CENTER"><FONT SIZE=1><B>1999</B></FONT><HR NOSHADE></TH>	

<TR BGCOLOR="#CCEEFF" VALIGN="BOTTOM">  
<TD WIDTH="68%"><FONT SIZE=2>SALES</FONT></TD>  
<TD WIDTH="2%"><FONT SIZE=2>&nbsp;</FONT></TD>  
<TD WIDTH="2%"><FONT SIZE=2>&nbsp;</FONT></TD>  
<TD WIDTH="12%" ALIGN="RIGHT"><FONT SIZE=2>2,298,535</FONT></TD>  
<TD WIDTH="2%"><FONT SIZE=2>&nbsp;</FONT></TD>  
<TD WIDTH="2%"><FONT SIZE=2>&nbsp;</FONT></TD>  
<TD WIDTH="12%" ALIGN="RIGHT"><FONT SIZE=2>2,236,725</FONT></TD>  
</TR>  
<TR BGCOLOR="White" VALIGN="BOTTOM">  
<TD WIDTH="68%"><FONT SIZE=2>COSTS AND EXPENSES:</FONT></TD>  
<TD WIDTH="2%"><FONT SIZE=2>&nbsp;</FONT></TD>  
<TD WIDTH="2%"><FONT SIZE=2>&nbsp;</FONT></TD>  
<TD WIDTH="12%"><FONT SIZE=2>&nbsp;</FONT></TD>  
<TD WIDTH="2%"><FONT SIZE=2>&nbsp;</FONT></TD>  
<TD WIDTH="2%"><FONT SIZE=2>&nbsp;</FONT></TD>  
<TD WIDTH="12%"><FONT SIZE=2>&nbsp;</FONT></TD>  
<TD WIDTH="2%"><FONT SIZE=2>&nbsp;</FONT></TD>  
<TD WIDTH="12%"><FONT SIZE=2>&nbsp;</FONT></TD>  
<TD WIDTH="2%"><FONT SIZE=2>&nbsp;</FONT></TD>  
<TR BGCOLOR="#CCEEFF" VALIGN="BOTTOM">  
<TD WIDTH="68%"><FONT SIZE=2>Cost of goods sold</FONT></TD>  
<TD WIDTH="2%"><FONT SIZE=2>&nbsp;</FONT></TD>  
<TD WIDTH="2%"><FONT SIZE=2>&nbsp;</FONT></TD>  
<TD WIDTH="12%" ALIGN="RIGHT"><FONT SIZE=2>1,116,307</FONT></TD>  
<TD WIDTH="2%"><FONT SIZE=2>&nbsp;</FONT></TD>

	1,061,908
Selling, general, and administrative	
	933,327
	789,183
Research and development	
	194,070
	161,998
<hr/>	
	2,243,704
	2,013,089
<hr/>	
	54,831
	223,636
<hr/>	
	INTEREST INCOME
	26,904
	3,257
<hr/>	
	26,735
	226,893
<hr/>	
	FEDERAL AND STATE INCOME TAXES
	81,735
	31,100

83,900	
NET INCOME	
50,635	
142,993	
EARNINGS PER SHARE:	
Basic	
0.04	
0.11	
Diluted	
0.04	
0.11	
WEIGHTED AVERAGE COMMON SHARES ASSUMED OUTSTANDING:	
1,298,056	
1,296,525	

<TD WIDTH="68%"><FONT SIZE=2>&nbsp;</FONT></TD>  
<TD WIDTH="2%"><FONT SIZE=2>&nbsp;</FONT></TD>  
<TD WIDTH="14%" COLSPAN=2 ALIGN="RIGHT"><HR NOSHADE SIZE=4></TD>  
<TD WIDTH="2%"><FONT SIZE=2>&nbsp;</FONT></TD>  
<TD WIDTH="14%" COLSPAN=2 ALIGN="RIGHT"><HR NOSHADE SIZE=4></TD>  
</TR>  
<TR BGCOLOR="#CCEEFF" VALIGN="BOTTOM">  
<TD WIDTH="68%"><FONT SIZE=2>Diluted</FONT></TD>  
<TD WIDTH="2%"><FONT SIZE=2>&nbsp;</FONT></TD>  
<TD WIDTH="2%"><FONT SIZE=2>&nbsp;</FONT></TD>  
<TD WIDTH="12%" ALIGN="RIGHT"><FONT SIZE=2>1,305,492</FONT></TD>  
<TD WIDTH="2%"><FONT SIZE=2>&nbsp;</FONT></TD>  
<TD WIDTH="2%"><FONT SIZE=2>&nbsp;</FONT></TD>  
<TD WIDTH="12%" ALIGN="RIGHT"><FONT SIZE=2>1,303,453</FONT></TD>  
</TR>  
<TR VALIGN="TOP">  
<TD WIDTH="68%"><FONT SIZE=2>&nbsp;</FONT></TD>  
<TD WIDTH="2%"><FONT SIZE=2>&nbsp;</FONT></TD>  
<TD WIDTH="14%" COLSPAN=2 ALIGN="RIGHT"><HR NOSHADE SIZE=4></TD>  
<TD WIDTH="2%"><FONT SIZE=2>&nbsp;</FONT></TD>  
<TD WIDTH="14%" COLSPAN=2 ALIGN="RIGHT"><HR NOSHADE SIZE=4></TD>  
</TR>  
</TABLE>  
<!-- end of user-specified TAGGED TABLE -->  
<P ALIGN="CENTER"><FONT SIZE=2>See  
notes to financial statements.</FONT></P>  
  
<P ALIGN="CENTER"><FONT SIZE=2>4</FONT></P>

<P><FONT SIZE=2><HR  
NOSHADE></FONT></P>

<!-- ZEQU.=2,SEQ=4,EFW="2014196",CP="CHROMALINE CORPORATION",DN="1",CHK=281426,FOLIO=4,FILE='DISK014:  
[00STP3.00STP1553]DE1553B.;3',USER='HRANKIN',CD=';9-MAY-2000;19:43 -->  
<!-- Generated by Merrill Corporation (www.merrillcorp.com) -->  
<P ALIGN="CENTER"><FONT SIZE=2><B>THE CHROMALINE CORPORATION</B></FONT></P>

<P ALIGN="CENTER"><FONT SIZE=2><B>STATEMENTS OF CASH FLOWS (Unaudited)</B></FONT></P>

<!-- User-specified TAGGED TABLE -->  
<TABLE WIDTH="85%" BORDER=0 CELLSPACING=0 CELLPADDING=0>  
<TR VALIGN="BOTTOM">  
<TH WIDTH="69%" ALIGN="LEFT"><FONT SIZE=2>&nbsp;</FONT><BR></TH>  
<TH WIDTH="2%"><FONT SIZE=1>&nbsp;</FONT></TH>  
<TH WIDTH="28%" COLSPAN=5 ALIGN="CENTER"><FONT SIZE=1><B>Three Months<BR>  
Ended March 31</B></FONT><HR NOSHADE></TH>  
<TH WIDTH="1%"><FONT SIZE=1>&nbsp;</FONT></TH>  
</TR>  
<TR VALIGN="BOTTOM">  
<TH WIDTH="69%" ALIGN="LEFT"><FONT SIZE=1>&nbsp;</FONT><BR></TH>  
<TH WIDTH="2%"><FONT SIZE=1>&nbsp;</FONT></TH>  
<TH WIDTH="13%" COLSPAN=2 ALIGN="CENTER"><FONT SIZE=1><B>2000</B></FONT><HR NOSHADE></TH>  
<TH WIDTH="2%"><FONT SIZE=1>&nbsp;</FONT></TH>  
<TH WIDTH="13%" COLSPAN=2 ALIGN="CENTER"><FONT SIZE=1><B>1999</B></FONT><HR NOSHADE></TH>  
<TH WIDTH="1%"><FONT SIZE=1>&nbsp;</FONT></TH>  
</TR>  
<TR BGCOLOR="White" VALIGN="BOTTOM">  
<TD WIDTH="69%"><FONT SIZE=2>CASH FLOWS FROM OPERATING ACTIVITIES:</FONT></TD>  
<TD WIDTH="2%"><FONT SIZE=2>&nbsp;</FONT></TD>  
<TD WIDTH="2%"><FONT SIZE=2>&nbsp;</FONT></TD>  
<TD WIDTH="10%"><FONT SIZE=2>&nbsp;</FONT></TD>  
<TD WIDTH="2%"><FONT SIZE=2>&nbsp;</FONT></TD>  
<TD WIDTH="2%"><FONT SIZE=2>&nbsp;</FONT></TD>  
<TD WIDTH="10%"><FONT SIZE=2>&nbsp;</FONT></TD>  
<TD WIDTH="1%"><FONT SIZE=2>&nbsp;</FONT></TD>  
</TR>  
<TR BGCOLOR="White" VALIGN="BOTTOM">  
<TD WIDTH="69%"><FONT SIZE=2>Net income</FONT></TD>  
<TD WIDTH="2%"><FONT SIZE=2>&nbsp;</FONT></TD>  
<TD WIDTH="2%"><FONT SIZE=2>&nbsp;</FONT></TD>  
<TD WIDTH="10%" ALIGN="RIGHT"><FONT SIZE=2>50,635</FONT></TD>  
<TD WIDTH="2%"><FONT SIZE=2>&nbsp;</FONT></TD>  
<TD WIDTH="2%"><FONT SIZE=2>&nbsp;</FONT></TD>  
<TD WIDTH="10%" ALIGN="RIGHT"><FONT SIZE=2>142,993</FONT></TD>  
<TD WIDTH="1%"><FONT SIZE=2>&nbsp;</FONT></TD>  
</TR>  
<TR BGCOLOR="White" VALIGN="BOTTOM">  
<TD WIDTH="69%"><FONT SIZE=2>Adjustments to reconcile net income to net cash provided by operating activities:</FONT>  
</TD>  
<TD WIDTH="2%"><FONT SIZE=2>&nbsp;</FONT></TD>  
<TD WIDTH="2%"><FONT SIZE=2>&nbsp;</FONT></TD>  
<TD WIDTH="10%"><FONT SIZE=2>&nbsp;</FONT></TD>  
<TD WIDTH="2%"><FONT SIZE=2>&nbsp;</FONT></TD>  
<TD WIDTH="2%"><FONT SIZE=2>&nbsp;</FONT></TD>

Depreciation and amortization		
	103,731	
	100,038	
Changes in working capital components:		
Decrease (increase) in:		
Trade receivables		
	136,191	
	(98,519)	
Prepaid expenses and other assets		
	(151,887)	
	(147,665)	
Inventories		
	(170,419)	
	189,736	
(Decrease) increase in:		
Accounts payable		
	155,546	
	(27,045)	
Accrued expenses		





<TR VALIGN="TOP">  
<TD WIDTH="69%"><FONT SIZE=2>&nbsp;</FONT></TD>  
<TD WIDTH="2%"><FONT SIZE=2>&nbsp;</FONT></TD>  
<TD WIDTH="13%" COLSPAN=2 ALIGN="RIGHT"><HR NOSHADE></TD>  
<TD WIDTH="2%"><FONT SIZE=2>&nbsp;</FONT></TD>  
<TD WIDTH="13%" COLSPAN=2 ALIGN="RIGHT"><HR NOSHADE></TD>  
<TD WIDTH="1%"><FONT SIZE=2>&nbsp;</FONT></TD>  
</TR>  
<TR BGCOLOR="White" VALIGN="BOTTOM">  
<TD WIDTH="69%"><FONT SIZE=2>CASH AND CASH EQUIVALENTS AT END OF PERIOD</FONT></TD>  
<TD WIDTH="2%"><FONT SIZE=2>&nbsp;</FONT></TD>  
<TD WIDTH="2%"><FONT SIZE=2>\$</FONT></TD>  
<TD WIDTH="10%" ALIGN="RIGHT"><FONT SIZE=2>717,547</FONT></TD>  
<TD WIDTH="2%"><FONT SIZE=2>&nbsp;</FONT></TD>  
<TD WIDTH="2%"><FONT SIZE=2>\$</FONT></TD>  
<TD WIDTH="10%" ALIGN="RIGHT"><FONT SIZE=2>478,957</FONT></TD>  
<TD WIDTH="1%"><FONT SIZE=2>&nbsp;</FONT></TD>  
</TR>  
<TR VALIGN="TOP">  
<TD WIDTH="69%"><FONT SIZE=2>&nbsp;</FONT></TD>  
<TD WIDTH="2%"><FONT SIZE=2>&nbsp;</FONT></TD>  
<TD WIDTH="13%" COLSPAN=2 ALIGN="RIGHT"><HR NOSHADE SIZE=4></TD>  
<TD WIDTH="2%"><FONT SIZE=2>&nbsp;</FONT></TD>  
<TD WIDTH="13%" COLSPAN=2 ALIGN="RIGHT"><HR NOSHADE SIZE=4></TD>  
<TD WIDTH="1%"><FONT SIZE=2>&nbsp;</FONT></TD>  
</TR>  
<TR BGCOLOR="#CCEEFF" VALIGN="BOTTOM">  
<TD WIDTH="69%"><FONT SIZE=2>SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:</FONT></TD>  
<TD WIDTH="2%"><FONT SIZE=2>&nbsp;</FONT></TD>  
<TD WIDTH="2%"><FONT SIZE=2>&nbsp;</FONT></TD>  
<TD WIDTH="10%"><FONT SIZE=2>&nbsp;</FONT></TD>  
<TD WIDTH="2%"><FONT SIZE=2>&nbsp;</FONT></TD>  
<TD WIDTH="2%"><FONT SIZE=2>&nbsp;</FONT></TD>  
<TD WIDTH="10%"><FONT SIZE=2>&nbsp;</FONT></TD>  
<TD WIDTH="1%"><FONT SIZE=2>&nbsp;</FONT></TD>  
</TR>  
<TR BGCOLOR="White" VALIGN="BOTTOM">  
<TD WIDTH="69%"><FONT SIZE=2>Cash payments for income taxes</FONT></TD>  
<TD WIDTH="2%"><FONT SIZE=2>&nbsp;</FONT></TD>  
<TD WIDTH="2%"><FONT SIZE=2>\$</FONT></TD>  
<TD WIDTH="10%" ALIGN="RIGHT"><FONT SIZE=2>179,602</FONT></TD>  
<TD WIDTH="2%"><FONT SIZE=2>&nbsp;</FONT></TD>  
<TD WIDTH="2%"><FONT SIZE=2>\$</FONT></TD>  
<TD WIDTH="10%" ALIGN="RIGHT"><FONT SIZE=2>30,000</FONT></TD>  
<TD WIDTH="1%"><FONT SIZE=2>&nbsp;</FONT></TD>  
</TR>  
<TR VALIGN="TOP">  
<TD WIDTH="69%"><FONT SIZE=2>&nbsp;</FONT></TD>  
<TD WIDTH="2%"><FONT SIZE=2>&nbsp;</FONT></TD>  
<TD WIDTH="13%" COLSPAN=2 ALIGN="RIGHT"><HR NOSHADE SIZE=4></TD>  
<TD WIDTH="2%"><FONT SIZE=2>&nbsp;</FONT></TD>  
<TD WIDTH="13%" COLSPAN=2 ALIGN="RIGHT"><HR NOSHADE SIZE=4></TD>  
<TD WIDTH="1%"><FONT SIZE=2>&nbsp;</FONT></TD>  
</TR>  
</TABLE>  
<!-- end of user-specified TAGGED TABLE -->  
<P ALIGN="CENTER"><FONT SIZE=2>See  
notes to financial statements.</FONT></P>  
  
<P ALIGN="CENTER"><FONT SIZE=2>5</FONT></P>  
  
<P><FONT SIZE=2><HR  
NOSHADE></FONT></P>  
  
<!-- ZEQ.=1,SEQ=5,EFW="2014196",CP="CHROMALINE CORPORATION",DN="1",CHK=250259,FOLIO=5,FILE='DISK014:  
[00STP3.00STP1553]DG1553A.;5',USER='HRANKIN',CD=';9-MAY-2000;19:41 -->  
<!-- Generated by Merrill Corporation (www.merrillcorp.com) -->  
<H2><FONT SIZE=2> </FONT></H2>  
<P ALIGN="CENTER"><FONT SIZE=2><B>THE CHROMALINE CORPORATION</B></FONT></P>  
  
<P ALIGN="CENTER"><FONT SIZE=2><B>NOTES TO FINANCIAL STATEMENTS</B></FONT></P>  
  
<P ALIGN="CENTER"><FONT SIZE=2><B>(Unaudited)</B></FONT></P>  
  
<DL compact>  
<DT><FONT SIZE=2>1.</FONT></DT><DD><FONT SIZE=2>The  
balance sheet of The Chromaline Corporation (the Company) as of March&nbsp;&nbsp;31, 2000, and the related statements of  
earnings and cash flows for the three months ended  
March&nbsp;&nbsp;31, 2000, have been prepared without being audited.</FONT></DD></DL>  
<UL>  
<BR>  
<P><FONT SIZE=2>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 March 31, 2000, 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 generally accepted accounting principles 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, 1999 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.

The major components of inventory at March 31, 2000 and December 31, 1999 are as follows:

!-- User-specified TAGGED TABLE -->

<CENTER><TABLE WIDTH="72%" BORDER=0 CELLSPACING=0 CELLPADDING=0>

<TR VALIGN="BOTTOM">

<TH WIDTH="60%" ALIGN="LEFT">&nbsp;</TH><BR></TH>

<TH WIDTH="2%">&nbsp;</TH>

<TH WIDTH="16%" COLSPAN=2 ALIGN="CENTER"><B>Mar 31, 2000</B></TH><HR NOSHADE></TH>

<TH WIDTH="2%">&nbsp;</TH>

<TH WIDTH="16%" COLSPAN=2 ALIGN="CENTER"><B>Dec 31, 1999</B></TH><HR NOSHADE></TH>

<TH WIDTH="2%">&nbsp;</TH></TR>

<TR BGCOLOR="#CCEEFF" VALIGN="TOP">

<TD WIDTH="60%"><B>Raw materials</B></TD>

<TD WIDTH="2%">&nbsp;</TD>

<TD WIDTH="3%">&nbsp;</TD>

<TD WIDTH="14%" ALIGN="RIGHT">652,051</TD>

<TD WIDTH="2%">&nbsp;</TD>

<TD WIDTH="3%">&nbsp;</TD>

<TD WIDTH="14%" ALIGN="RIGHT">502,780</TD>

<TD WIDTH="2%">&nbsp;</TD></TR>

<TR BGCOLOR="White" VALIGN="TOP">

<TD WIDTH="60%"><B>Work-in-progress</B></TD>

<TD WIDTH="2%">&nbsp;</TD>

<TD WIDTH="3%">&nbsp;</TD>

<TD WIDTH="14%" ALIGN="RIGHT">312,686</TD>

<TD WIDTH="2%">&nbsp;</TD>

<TD WIDTH="3%">&nbsp;</TD>

<TD WIDTH="14%" ALIGN="RIGHT">336,062</TD>

<TD WIDTH="2%">&nbsp;</TD></TR>

<TR BGCOLOR="#CCEEFF" VALIGN="TOP">

<TD WIDTH="60%"><B>Finished goods</B></TD>

<TD WIDTH="2%">&nbsp;</TD>

<TD WIDTH="3%">&nbsp;</TD>

<TD WIDTH="14%" ALIGN="RIGHT">647,216</TD>

<TD WIDTH="2%">&nbsp;</TD>

<TD WIDTH="3%">&nbsp;</TD>

<TD WIDTH="14%" ALIGN="RIGHT">598,189</TD>

<TD WIDTH="2%">&nbsp;</TD></TR>

<TR BGCOLOR="White" VALIGN="TOP">

<TD WIDTH="60%"><B>Reduction to LIFO cost</B></TD>

<TD WIDTH="2%">&nbsp;</TD>

<TD WIDTH="3%">&nbsp;</TD>

<TD WIDTH="14%" ALIGN="RIGHT">(165,503</TD>

<TD WIDTH="2%">&nbsp;</TD>

<TD WIDTH="3%">&nbsp;</TD>

<TD WIDTH="14%" ALIGN="RIGHT">(161,000</TD>

<TD WIDTH="2%">&nbsp;</TD></TR>

<TR VALIGN="TOP">

<TD WIDTH="60%">&nbsp;</TD>

<TD WIDTH="2%">&nbsp;</TD>

<TD WIDTH="16%" COLSPAN=2 ALIGN="RIGHT"><HR NOSHADE></TD>

<TD WIDTH="2%">&nbsp;</TD>

<TD WIDTH="16%" COLSPAN=2 ALIGN="RIGHT"><HR NOSHADE></TD>

<TD WIDTH="2%">&nbsp;</TD></TR>

<TR BGCOLOR="#CCEEFF" VALIGN="TOP">

<TD WIDTH="60%"><B>Total Inventory</B></TD>

<TD WIDTH="2%">&nbsp;</TD>

<TD WIDTH="3%">&nbsp;</TD>

<TD WIDTH="14%" ALIGN="RIGHT">1,446,450</TD>

<TD WIDTH="2%">&nbsp;</TD>

<TD WIDTH="3%">&nbsp;</TD>

<TD WIDTH="14%" ALIGN="RIGHT">1,276,031</TD>

```
<TD WIDTH="2%"><FONT SIZE=2>&nbsp;</FONT></TD>
</TR>
<TR VALIGN="TOP">
<TD WIDTH="60%"><FONT SIZE=2>&nbsp;</FONT></TD>
<TD WIDTH="2%"><FONT SIZE=2>&nbsp;</FONT></TD>
<TD WIDTH="16%" COLSPAN=2 ALIGN="RIGHT"><HR NOSHADE SIZE=4></TD>
<TD WIDTH="2%"><FONT SIZE=2>&nbsp;</FONT></TD>
<TD WIDTH="16%" COLSPAN=2 ALIGN="RIGHT"><HR NOSHADE SIZE=4></TD>
<TD WIDTH="2%"><FONT SIZE=2>&nbsp;</FONT></TD>
</TR>
</TABLE></CENTER>
<!-- end of user-specified TAGGED TABLE -->
```

<DL compact>
<DT><FONT SIZE=2>3.</FONT></DT><DD><FONT SIZE=2>The Company is a defendant in a claim filed in the United States District Court, Western District of Washington at Seattle, in which the claimant alleges that certain of the Company's products infringe on two U.S. patents owned by the claimant. The Company has filed an answer denying infringement and further believes that the claimant's patent to be invalid, and to have been procured through inequitable conduct.</FONT></DD></DL>
<UL>
<BR>

<P><FONT SIZE=2>During fiscal 1998, the lawsuit was stayed after the Company filed a Request for Reexamination with the United States Patent and Trademark Office (USPTO) with respect to the patents involved in the suit. The request was granted. Subsequently, the USPTO, on three occasions rejected the claims of the claimant. The plaintiff appealed to the Board of Appeals in September&nbsp;1999. In February&nbsp;2000, the USPTO issued reexamined patents to the plaintiff which substantially narrows the claims of the lawsuit. The Company has filed a motion for summary judgement to dismiss the suit. During the three months ended March&nbsp;31, 2000, the Company paid approximately \$3,000 in legal and related costs in the defense of this matter. Such payments were applied against the accrual of \$250,000 established at December&nbsp;31, 1997. At March&nbsp;31, 2000, the Company had a remaining accrual of \$25,000 for expected future legal costs relating to this matter.</FONT></P>

</UL>
<DL compact>
<DT><FONT SIZE=2>4.</FONT></DT><DD><FONT SIZE=2>In June&nbsp;1998, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS)&nbsp;No.&nbsp;133, "Accounting for Derivative Instruments and Hedging Activities". SFAS&nbsp;No.&nbsp;133 requires companies to record derivatives on the balance sheet as assets or liabilities, measured at fair value. Gains or losses resulting from changes in the value of those derivatives would be accounted for depending on the use of the derivative and whether it qualifies for hedge accounting. In July&nbsp;1999, FASB issued SFAS&nbsp;No.&nbsp;137 delaying the effective date of</FONT></DD></DL>
<P ALIGN="CENTER"><FONT SIZE=2>6</FONT></P>

<P><FONT SIZE=2><HR NOSHADE></FONT></P>

```
<!-- ZEQ.=1,SEQ=6,EFW="2014196",CP="CHROMALINE CORPORATION",DN="1",CHK=325202,FOLIO=6,FILE='DISK014:
[00STP3.00STP1553]DI1553A.;12',USER='JKEENE',CD='12-MAY-2000;10:20 -->
<UL>
```

<P><FONT SIZE=2>SFAS&nbsp;No.&nbsp;133 for one year to fiscal years beginning after June&nbsp;15, 2000, with earlier adoption encouraged. Management has not yet determined the effects of SFAS&nbsp;No.&nbsp;133 will have on its financial position or the results of its operations. The Company will be required to adopt SFAS&nbsp;No.&nbsp;133 in fiscal 2001.</FONT></P>

</UL>
<DL compact>
<DT><FONT SIZE=2>5.</FONT></DT><DD><FONT SIZE=2>Stockholders' Equity</FONT></DD></DL>
<BR><BR>

```
<!-- User-specified TAGGED TABLE -->
<CENTER><TABLE WIDTH="71%" BORDER=0 CELLPACING=0 CELLPADDING=0>
<TR VALIGN="BOTTOM">
<TH WIDTH="68%" ALIGN="LEFT"><FONT SIZE=2>&nbsp;</FONT><BR></TH>
<TH WIDTH="2%"><FONT SIZE=1>&nbsp;</FONT></TH>
<TH WIDTH="27%" COLSPAN=2 ALIGN="CENTER"><FONT SIZE=1><B>Three Months Ended<BR>
March 31, 2000</B></FONT><HR NOSHADE></TH>
<TH WIDTH="2%"><FONT SIZE=1>&nbsp;</FONT></TH>
</TR>
<TR BGCOLOR="#CCEEFF" VALIGN="TOP">
<TD WIDTH="68%"><FONT SIZE=2>Total Stockholders' Equity-December 31, 1999</FONT></TD>
<TD WIDTH="2%"><FONT SIZE=2>&nbsp;</FONT></TD>
<TD WIDTH="3%"><FONT SIZE=2>$</FONT></TD>
<TD WIDTH="25%" ALIGN="RIGHT"><FONT SIZE=2>5,661,475</FONT></TD>
<TD WIDTH="2%"><FONT SIZE=2>&nbsp;</FONT></TD>
</TR>
<TR BGCOLOR="White" VALIGN="TOP">
<TD WIDTH="68%"><FONT SIZE=2>Net income</FONT></TD>
<TD WIDTH="2%"><FONT SIZE=2>&nbsp;</FONT></TD>
```

	50,635	
Unrealized loss on available-for-sale investments		
		742
Comprehensive income		
		49,893
Total Stockholders' Equity		
		5,711,368

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.

---

!-- ZEQ.=2,SEQ=7,EFW="2014196",CP="CHROMALINE CORPORATION",DN="1",CHK=39660,FOLIO=7,FILE='DISK014:[00STP3.00STP1553]DI1553A.;12',USER='JKEENE',CD='12-MAY-2000;10:20 -->

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 first quarter of 2000 and the same period of 1999. They 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 expectation that selling, general and administrative expenses will remain at current levels during the remainder of the year 2000. This expectation may be impacted by general economic conditions and unanticipated events causing changes in expenses or sales.
- The Company's plans to continue to invest in research and development efforts and the expected focus and results of such efforts. 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 or other changes in competitive conditions.
- 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. Changes in anticipated operating results, credit availability and equity market conditions may further enhance or inhibit the Company's ability to maintain or raise appropriate levels of cash.
- 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 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.
- The Company's plan to seek acquisitions. This plan may be impacted by general market conditions, competitive conditions in the Company's industry, unanticipated changes in the Company's financial position or the inability to identify attractive acquisition targets.

---

!-- ZEQ.=3,SEQ=8,EFW="2014196",CP="CHROMALINE CORPORATION",DN="1",CHK=674535,FOLIO=8,FILE='DISK014: [00STP3.00STP1553]DI1553B.;2',USER='JKEENE',CD='12-MAY-2000;10:20 -->

Results of Operations

Quarter Ended March 31, 2000 Compared to Quarter Ended March 31, 1999

Sales. The Company's sales during the first quarter of 2000 increased 3% to \$2.30 million, from the \$2.24 million in sales during the same period in 1999. The increase is attributable to higher unit volume sales in the Company's international markets and in its decorative sandblast markets, which were partially offset by lower unit selling prices due to competitive forces in the global marketplace.

Cost of Goods Sold. Cost of goods sold during the first quarter of 2000 was \$1.12 million, or 48.6% of sales, compared to \$1.06 million, or 47.5% of sales, during the same period in 1999. The increase in the first quarter of 2000 was due to a shift in the Company's product mix within its domestic U.S. decorative sandblasting market.

Selling, General and Administrative Expenses. Selling, general and administrative expenses increased to \$933,000, or 40.6% of sales, in the first quarter of 2000, from \$789,000, or 35.4% of sales, for the same period in 1999. A portion of the increase reflects the separation costs for the Company's CEO who resigned February 7, 2000. The balance of the increase was due to increased sales and marketing costs related to trade shows and advertising. The Company also incurred higher costs than the previous year's quarter for expenses related to its listing on the Nasdaq SmallCap Market and preparation of its proxy statement and annual report. These increased expenses were partially offset by lower administrative salaries, fringes and travel expenses.

**Research and Development Expenses.** Research and development expenses during the first quarter of 2000 increased to \$194,000, or 8.4% of sales, from \$162,000, or 7.2%, for the same period in 1999. The increase was attributable to production trial costs related to development projects. The Company intends to continue to invest in research and development as appropriate to maintain its innovation.

**Interest Income.** Interest income increased to \$27,000 for the first quarter of 2000 compared to \$3,000 for the same period in 1999. The increase is due to the Company's investment in the second half of 1999 in general revenue obligation bonds for certain municipalities in the state of Minnesota that pay interest on a quarterly basis.

**Income Taxes.** Income taxes decreased to \$31,000, or an effective rate of 38%, during the first quarter of 2000 from \$84,000, or an effective rate of 37%, for the first quarter of 1999. The difference in the effective rate is due to permanent differences for allowable tax deductions including foreign sales corporation credits.

**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 and annual capital requirements, as well as research and development expenditures.

**Cash** and cash equivalents were \$718,000 and \$479,000 at March 31, 2000 and March 31, 1999, respectively. The Company generated \$115,000 in cash from operating activities during the three months ended March 31, 2000 and \$225,000 for the same period in 1999. Cash generated by operating activities is primarily provided by net income as adjusted for non-cash depreciation. During the first three months of 2000, trade receivables decreased by \$136,000 reflecting payments early in the quarter from its European customers. Prepaid expenses increased \$152,000 reflecting certain prepaid marketing expenditures. Inventories increased \$170,000 primarily to an increase in raw materials. Accounts payable increased \$156,000, accrued expenses increased \$49,000 and income taxes payable decreased \$55,000 reflecting first quarter federal and state tax deposits. For the three months ended March 31, 1999, trade receivables increased \$99,000. Prepaid expenses increased \$148,000 while inventories decreased \$190,000. Accounts payable

---

! -- ZEQ=4, SEQ=9, EFW="2014196", CP="CHROMALINE CORPORATION", DN="1", CHK=335822, FOLIO=9, FILE='DISK014: [00STP3.00STP1553]DI1553B.;2', USER='JKEENE', CD='12-MAY-2000;10:20 -->

decreased \$27,000, accrued expenses increased \$13,000. Income taxes payable increased \$54,000 reflecting the tax refund the Company received on its 1998 corporate federal tax return.

The Company used \$104,000 and \$23,000 in cash for investing activities during the three months ended March 31, 2000 and March 31, 1999, respectively. In both periods, net cash used for investing activities for plant and equipment was \$72,000 and \$24,000, respectively. During the first quarter of 2000, the Company made an additional investment of \$15,000 to Chromaline Europe, S.A. in order to maintain its 19.5% ownership. The Company purchased municipal revenue bonds that are carried at fair value and classified and accounted as "available for sale".

The Company generated no additional cash from financing activities during the three months ended March 31, 2000. During the same period in 1999, \$2,000 in cash was generated from the exercise of stock options.

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 has not utilized this line of credit and there is no debt outstanding under this line as of March 31, 2000.

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. Future activities undertaken to expand the Company's business may include acquisitions, building expansion and additions, equipment additions, new product development and marketing opportunities.

**Capital Expenditures**

Through March 31, 2000, the Company had spent \$72,000 on capital expenditures in 2000. This spending included primarily, plant security equipment, lab equipment and two vehicles for the sales force.





	11	
	Computation of Net Earnings per Common Share	
	Financial Data Schedule	

-- end of user-specified TAGGED TABLE --  
 HR NOSHADE ALIGN=LEFT WIDTH="120"  
 DL compact  
 DT (1) DD Incorporated  
 by reference to the like numbered Exhibit to the Company's Registration Statement on Form 10-SB (File No. 000-25727).  
 BR

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 were filed by the registrant during the quarterly period ended March 31, 2000.

13

---

-- ZEQU.=2, SEQ=13, EFW="2014196", CP="CHROMALINE CORPORATION", DN="1", CHK=410616, FOLIO=13, FILE='DISK014: [00STP3.00STP1553]DK1553A.;7', USER='MSPASOJ', CD='10-MAY-2000;08:29 --  
 BR  
 P ALIGN="CENTER" A  
 NAME="dk1553\_the\_chromaline\_corporation\_signatures" 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: May 15, 2000
		Jeffery A. Laabs
		Chief Financial Officer, Treasurer and Secretary
		Principal Financial Officer

-- end of user-specified TAGGED TABLE --  
 P ALIGN="CENTER" 14

---

-- ZEQU.=3, SEQ=14, EFW="2014196", CP="CHROMALINE CORPORATION", DN="1", CHK=405018, FOLIO=14, FILE='DISK014: [00STP3.00STP1553]DK1553B.;6', USER='MSPASOJ', CD='10-MAY-2000;08:29 --  
 BR  
 P ALIGN="CENTER" A  
 NAME="dk1553\_index\_to\_exhibits" INDEX TO EXHIBITS

--	--	--



```
<TR VALIGN="BOTTOM">
<TH WIDTH="9%" ALIGN="LEFT"><FONT SIZE=1><B>Exhibit</B></FONT><HR NOSHADE></TH>
<TH WIDTH="2%"><FONT SIZE=1>&nbsp;</FONT></TH>
<TH WIDTH="62%" ALIGN="CENTER"><FONT SIZE=1><B>Description</B></FONT><HR NOSHADE></TH>
<TH WIDTH="2%"><FONT SIZE=1>&nbsp;</FONT></TH>
<TH WIDTH="25%" ALIGN="CENTER"><FONT SIZE=1><B>Page</B></FONT><HR NOSHADE></TH>
</TR>
<TR BGCOLOR="#CCEEFF" VALIGN="TOP">
<TD WIDTH="9%" ALIGN="RIGHT"><FONT SIZE=2>3.1</FONT></TD>
<TD WIDTH="2%"><FONT SIZE=2>&nbsp;</FONT></TD>
<TD WIDTH="62%"><FONT SIZE=2>Restated Articles of Incorporation of Company, as amended</FONT></TD>
<TD WIDTH="2%"><FONT SIZE=2>&nbsp;</FONT></TD>
<TD WIDTH="25%"><FONT SIZE=2>Incorporated by Reference</FONT></TD>
</TR>
<TR BGCOLOR="White" VALIGN="TOP">
<TD WIDTH="9%" ALIGN="RIGHT"><FONT SIZE=2>3.2</FONT></TD>
<TD WIDTH="2%"><FONT SIZE=2>&nbsp;</FONT></TD>
<TD WIDTH="62%"><FONT SIZE=2>By-Laws of the Company, as amended</FONT></TD>
<TD WIDTH="2%"><FONT SIZE=2>&nbsp;</FONT></TD>
<TD WIDTH="25%"><FONT SIZE=2>Incorporated by Reference</FONT></TD>
</TR>
<TR BGCOLOR="#CCEEFF" VALIGN="TOP">
<TD WIDTH="9%" ALIGN="RIGHT"><FONT SIZE=2>11</FONT></TD>
<TD WIDTH="2%"><FONT SIZE=2>&nbsp;</FONT></TD>
<TD WIDTH="62%"><FONT SIZE=2>Computation of Net Earnings per Common Share</FONT></TD>
<TD WIDTH="2%"><FONT SIZE=2>&nbsp;</FONT></TD>
<TD WIDTH="25%"><FONT SIZE=2>Filed Electronically</FONT></TD>
</TR>
<TR BGCOLOR="White" VALIGN="TOP">
<TD WIDTH="9%" ALIGN="RIGHT"><FONT SIZE=2>27.1</FONT></TD>
<TD WIDTH="2%"><FONT SIZE=2>&nbsp;</FONT></TD>
<TD WIDTH="62%"><FONT SIZE=2>Financial Data Schedule</FONT></TD>
<TD WIDTH="2%"><FONT SIZE=2>&nbsp;</FONT></TD>
<TD WIDTH="25%"><FONT SIZE=2>Filed Electronically</FONT></TD>
</TR>
</TABLE>
<!-- end of user-specified TAGGED TABLE -->
<P ALIGN="CENTER"><FONT SIZE=2>15</FONT></P>

<P><FONT SIZE=2><HR
NOSHADE></FONT></P>

<!-- ZEQ.=4,SEQ=15,EFW="2014196",CP="CHROMALINE CORPORATION",DN="1",CHK=956952,FOLIO=15,FILE='DISK014:
[00STP3.00STP1553]DK1553B.;6',USER='MSPASOJ',CD='10-MAY-2000;08:29 -->
<!-- Generated by Merrill Corporation (www.merrillcorp.com) -->
<BR>
<H2><FONT SIZE=2><A NAME="00STP1553_1">QuickLinks</A></FONT></H2>
<!-- TOC_BEGIN -->
<FONT SIZE=2><A HREF="#bg1553_the_chromaline_corporat_bg102315">THE CHROMALINE CORPORATION QUARTERLY REPORT ON FORM
10-QSB</A></FONT><BR>
<!-- TOC_END -->
<!-- TOC_BEGIN -->
<FONT SIZE=2><A HREF="#de1553_part_i_#151;financial_information">PART I&#151;FINANCIAL INFORMATION</A></FONT><BR>
<!-- TOC_END -->
<!-- TOC_BEGIN -->
<FONT SIZE=2><A HREF="#di1553_the_chromaline_corporation">THE CHROMALINE CORPORATION</A></FONT><BR>
<!-- TOC_END -->
<!-- TOC_BEGIN -->
<FONT SIZE=2><A HREF="#dk1553_part_ii_other_information">PART II. OTHER INFORMATION</A></FONT><BR>
<FONT SIZE=2><A HREF="#dk1553_the_chromaline_corporation_signatures">THE CHROMALINE CORPORATION SIGNATURES</A></FONT>
<BR>
<FONT SIZE=2><A HREF="#dk1553_index_to_exhibits">INDEX TO EXHIBITS</A></FONT><BR>
<!-- TOC_END -->
<!-- SEQ=',FILE='QUICKLINK',USER=JKEENE,SEQ=',EFW="2014196",CP="CHROMALINE CORPORATION",DN="1" -->
</BODY>
</HTML>
```

<HTML>  
 <HEAD>  
 <TITLE> Prepared by MERRILL CORPORATION www.edgaradvantage.com  
 </TITLE>  
 </HEAD>  
 <BODY BGCOLOR="#FFFFFF" LINK=BLUE VLINK=PURPLE>  
 <P ALIGN="RIGHT"><FONT SIZE=2><B>EXHIBIT 11</B></FONT></P>

<P ALIGN="CENTER"><FONT SIZE=2><B>THE CHROMALINE CORPORATION</B></FONT></P>

<P ALIGN="CENTER"><FONT SIZE=2><B>COMPUTATION OF NET EARNINGS PER COMMON SHARE</B></FONT></P>

<P ALIGN="CENTER"><FONT SIZE=2><B>(Unaudited)</B></FONT></P>

<!-- User-specified TAGGED TABLE -->  
 <TABLE WIDTH="84%" BORDER=0 CELLSPACING=0 CELLPADDING=0>  
 <TR VALIGN="BOTTOM">  
 <TH WIDTH="68%" ALIGN="LEFT"><FONT SIZE=2>&nbsp;</FONT><BR></TH>  
 <TH WIDTH="2%"><FONT SIZE=1>&nbsp;</FONT></TH>  
 <TH WIDTH="30%" COLSPAN=5 ALIGN="CENTER"><FONT SIZE=1><B>Three Months Ended</B></FONT><HR NOSHADE></TH>  
 </TR>  
 <TR VALIGN="BOTTOM">  
 <TH WIDTH="68%" ALIGN="LEFT"><FONT SIZE=1>&nbsp;</FONT><BR></TH>  
 <TH WIDTH="2%"><FONT SIZE=1>&nbsp;</FONT></TH>  
 <TH WIDTH="14%" COLSPAN=2 ALIGN="CENTER"><FONT SIZE=1><B>Mar&nbsp;&nbsp;&nbsp;&nbsp;&nbsp;31, 2000</B></FONT><HR NOSHADE></TH>  
 <TH WIDTH="2%"><FONT SIZE=1>&nbsp;</FONT></TH>  
 <TH WIDTH="14%" COLSPAN=2 ALIGN="CENTER"><FONT SIZE=1><B>Mar&nbsp;&nbsp;&nbsp;&nbsp;&nbsp;31, 1999</B></FONT><HR NOSHADE></TH>  
 </TR>  
 <TR BGCOLOR="#CCEEFF" VALIGN="BOTTOM">  
 <TD WIDTH="68%"><FONT SIZE=2>Net earnings applicable to common shareholders for basic and diluted earnings per share</FONT></TD>  
 <TD WIDTH="2%"><FONT SIZE=2>&nbsp;</FONT></TD>  
 <TD WIDTH="2%"><FONT SIZE=2>\$</FONT></TD>  
 <TD WIDTH="12%" ALIGN="RIGHT"><FONT SIZE=2>50,635</FONT></TD>  
 <TD WIDTH="2%"><FONT SIZE=2>&nbsp;</FONT></TD>  
 <TD WIDTH="2%"><FONT SIZE=2>\$</FONT></TD>  
 <TD WIDTH="12%" ALIGN="RIGHT"><FONT SIZE=2>142,993</FONT></TD>  
 </TR>  
 <TR BGCOLOR="White" VALIGN="BOTTOM">  
 <TD WIDTH="68%"><FONT SIZE=2>Weighted average shares outstanding for basic earnings per share</FONT></TD>  
 <TD WIDTH="2%"><FONT SIZE=2>&nbsp;</FONT></TD>  
 <TD WIDTH="2%"><FONT SIZE=2>&nbsp;</FONT></TD>  
 <TD WIDTH="12%" ALIGN="RIGHT"><FONT SIZE=2>1,298,056</FONT></TD>  
 <TD WIDTH="2%"><FONT SIZE=2>&nbsp;</FONT></TD>  
 <TD WIDTH="2%"><FONT SIZE=2>&nbsp;</FONT></TD>  
 <TD WIDTH="12%" ALIGN="RIGHT"><FONT SIZE=2>1,296,525</FONT></TD>  
 </TR>  
 <TR BGCOLOR="#CCEEFF" VALIGN="BOTTOM">  
 <TD WIDTH="68%"><FONT SIZE=2>Dilutive effect of stock options computed using the treasury stock method and the average market price</FONT></TD>  
 <TD WIDTH="2%"><FONT SIZE=2>&nbsp;</FONT></TD>  
 <TD WIDTH="2%"><FONT SIZE=2>&nbsp;</FONT></TD>  
 <TD WIDTH="12%" ALIGN="RIGHT"><FONT SIZE=2>7,436</FONT></TD>  
 <TD WIDTH="2%"><FONT SIZE=2>&nbsp;</FONT></TD>  
 <TD WIDTH="2%"><FONT SIZE=2>&nbsp;</FONT></TD>  
 <TD WIDTH="12%" ALIGN="RIGHT"><FONT SIZE=2>6,928</FONT></TD>  
 </TR>  
 <TR BGCOLOR="White" VALIGN="BOTTOM">  
 <TD WIDTH="68%"><FONT SIZE=2>Weighted average shares outstanding for diluted earnings per share</FONT></TD>  
 <TD WIDTH="2%"><FONT SIZE=2>&nbsp;</FONT></TD>  
 <TD WIDTH="2%"><FONT SIZE=2>&nbsp;</FONT></TD>  
 <TD WIDTH="12%" ALIGN="RIGHT"><FONT SIZE=2>1,305,492</FONT></TD>  
 <TD WIDTH="2%"><FONT SIZE=2>&nbsp;</FONT></TD>  
 <TD WIDTH="2%"><FONT SIZE=2>&nbsp;</FONT></TD>  
 <TD WIDTH="12%" ALIGN="RIGHT"><FONT SIZE=2>1,303,453</FONT></TD>  
 </TR>  
 <TR BGCOLOR="#CCEEFF" VALIGN="BOTTOM">  
 <TD WIDTH="68%"><FONT SIZE=2>Basic earnings per share</FONT></TD>  
 <TD WIDTH="2%"><FONT SIZE=2>&nbsp;</FONT></TD>  
 <TD WIDTH="2%"><FONT SIZE=2>\$</FONT></TD>  
 <TD WIDTH="12%" ALIGN="RIGHT"><FONT SIZE=2>0.04</FONT></TD>  
 <TD WIDTH="2%"><FONT SIZE=2>&nbsp;</FONT></TD>  
 <TD WIDTH="2%"><FONT SIZE=2>\$</FONT></TD>  
 <TD WIDTH="12%" ALIGN="RIGHT"><FONT SIZE=2>0.11</FONT></TD>  
 </TR>  
 <TR BGCOLOR="White" VALIGN="BOTTOM">  
 <TD WIDTH="68%"><FONT SIZE=2>Diluted earnings per share</FONT></TD>  
 <TD WIDTH="2%"><FONT SIZE=2>&nbsp;</FONT></TD>  
 <TD WIDTH="2%"><FONT SIZE=2>\$</FONT></TD>  
 <TD WIDTH="12%" ALIGN="RIGHT"><FONT SIZE=2>0.04</FONT></TD>  
 <TD WIDTH="2%"><FONT SIZE=2>&nbsp;</FONT></TD>  
 <TD WIDTH="2%"><FONT SIZE=2>\$</FONT></TD>  
 <TD WIDTH="12%" ALIGN="RIGHT"><FONT SIZE=2>0.11</FONT></TD>  
 </TR>

</TABLE>  
<!-- end of user-specified TAGGED TABLE -->

<P><FONT SIZE=2><HR  
NOSHADE></FONT></P>

<!-- ZEQ.=1,SEQ=1,EFW="2014196",CP="CHROMALINE CORPORATION",DN="2",CHK=3015,FOLIO=blank,FILE='DISK014:  
[00STP3.00STP1553]DM1553A.;8',USER='MSPASOJ',CD='10-MAY-2000;08:29 -->  
<!-- Generated by Merrill Corporation (www.merrillcorp.com) -->  
<BR>  
<!-- SEQ=,FILE='QUICKLINK',USER=JKEENE,SEQ=,EFW="2014196",CP="CHROMALINE CORPORATION",DN="2" -->  
</BODY>  
</HTML>

<TABLE> <S> <C>

<ARTICLE> 5

<S>	<C>
<PERIOD-TYPE>	3-MOS
<FISCAL-YEAR-END>	DEC-31-2000
<PERIOD-START>	JAN-01-2000
<PERIOD-END>	MAR-31-2000
<CASH>	717,547
<SECURITIES>	642,560
<RECEIVABLES>	1,588,219
<ALLOWANCES>	17,400
<INVENTORY>	1,446,450
<CURRENT-ASSETS>	4,652,927
<PP&E>	4,442,659
<DEPRECIATION>	2,916,413
<TOTAL-ASSETS>	6,355,431
<CURRENT-LIABILITIES>	644,063
<BONDS>	0
<PREFERRED-MANDATORY>	0
<PREFERRED>	0
<COMMON>	129,806
<OTHER-SE>	5,581,562
<TOTAL-LIABILITY-AND-EQUITY>	6,355,431
<SALES>	2,298,535
<TOTAL-REVENUES>	2,298,535
<CGS>	1,116,307
<TOTAL-COSTS>	2,216,800
<OTHER-EXPENSES>	0
<LOSS-PROVISION>	0
<INTEREST-EXPENSE>	0
<INCOME-PRETAX>	81,735
<INCOME-TAX>	31,100
<INCOME-CONTINUING>	50,635
<DISCONTINUED>	0
<EXTRAORDINARY>	0
<CHANGES>	0
<NET-INCOME>	50,635
<EPS-BASIC>	.04
<EPS-DILUTED>	.04

</TABLE>