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<TITLE> Prepared by MERRILL CORPORATION www.edgaradvantage.com
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<P ALIGN="CENTER"><FONT SIZE=5><B>U.S. SECURITIES AND EXCHANGE COMMISSION<BR></B></FONT><FONT SIZE=2><B>WASHINGTON,
D.C. 20549</B></FONT></P>

<HR NOSHADE WIDTH=120>
<BR>
<P ALIGN="CENTER"><FONT SIZE=5><B>FORM 10-QSB</B></FONT></P>

<P><FONT SIZE=2><B>(Mark One)</B></FONT></P>

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theSecurities Exchange Act of 1934</B></FONT></TD>
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<P ALIGN="CENTER"><FONT SIZE=2><B>For the Quarterly Period Ended September 30, 1999</B></FONT></P>

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

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<U>              </U> to
<U>             
 </U>.</B></FONT></P>

<P ALIGN="CENTER"><FONT SIZE=2><B>Commission file number 000-25727</B></FONT></P>

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<BR>
<P ALIGN="CENTER"><FONT SIZE=5><B>THE CHROMALINE CORPORATION<BR></B></FONT><FONT SIZE=2>(Exact name of small business
issuer as specified in its charter)</FONT></P>

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(I.R.S. employer<BR>
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 </FONT></TD>
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<TD WIDTH="49%" ALIGN="CENTER"><FONT SIZE=2><B>Duluth, Minnesota</B></FONT><FONT SIZE=2><BR>
(Address of principal executive offices)</FONT></TD>
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<TD WIDTH="49%" ALIGN="CENTER"><FONT SIZE=2><B>55807</B></FONT><FONT SIZE=2><BR>
(Zip code)</FONT></TD>
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<P ALIGN="CENTER"><FONT SIZE=2><B>(218) 628-2217</B></FONT><FONT SIZE=2><BR>
Issuer's telephone number</FONT></P>

<P ALIGN="CENTER"><FONT SIZE=2><B>Not Applicable</B></FONT><FONT SIZE=2><BR>
(Former name, former address and former fiscal year, if changed since last report)</FONT></P>
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<P><FONT SIZE=2>    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 / /</FONT></P>

<P><FONT SIZE=2>    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&#151;1,180,061 shares
outstanding as of October 18, 1999.</FONT></P>

<P><FONT SIZE=2>    Transitional
Small Business Disclosure Format (check one): Yes / /  No /x/</FONT></P>

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<!-- Generated by Merrill Corporation (www.merrillcorp.com) -->
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QUARTERLY REPORT ON FORM 10-QSB</B></FONT></P>

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<TD WIDTH="2%"><FONT SIZE=2> </FONT></TD>
<TD WIDTH="8%"><FONT SIZE=2> </FONT></TD>
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<!-- Generated by Merrill Corporation (www.merrillcorp.com) -->
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<P ALIGN="CENTER"><FONT SIZE=2><B>THE CHROMALINE CORPORATION<BR>
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1998</B></FONT><HR NOSHADE></TH>
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<TD WIDTH="2%"><FONT SIZE=2>$</FONT></TD>
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<TD WIDTH="2%"><FONT SIZE=2> </FONT></TD>
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<TD WIDTH="13%"><FONT SIZE=2> </FONT></TD>
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<TD WIDTH="2%"><FONT SIZE=2> </FONT></TD>
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</TD>
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<TD WIDTH="13%"><FONT SIZE=2> </FONT></TD>
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<TD WIDTH="2%"><FONT SIZE=2> </FONT></TD>
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notes to consolidated financial statements.</FONT></P>

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CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)</B></FONT></P>

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<TD WIDTH="2%"><FONT SIZE=2> </FONT></TD>
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<TD WIDTH="10%" ALIGN="RIGHT"><FONT SIZE=2> </FONT></TD>
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<TD WIDTH="2%"><FONT SIZE=2> </FONT></TD>
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<TD WIDTH="2%"><FONT SIZE=2> </FONT></TD>
<TD WIDTH="10%" ALIGN="RIGHT"><FONT SIZE=2>(371,813</FONT></TD>
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<TD WIDTH="2%"><FONT SIZE=2> </FONT></TD>
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<TD WIDTH="1%"><FONT SIZE=2> </FONT></TD>
</TR>
<TR BGCOLOR="White" VALIGN="BOTTOM">
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<TD WIDTH="2%"><FONT SIZE=2> </FONT></TD>
<TD WIDTH="10%" ALIGN="RIGHT"><FONT SIZE=2> </FONT></TD>
<TD WIDTH="2%"><FONT SIZE=2> </FONT></TD>
<TD WIDTH="2%"><FONT SIZE=2> </FONT></TD>
<TD WIDTH="10%" ALIGN="RIGHT"><FONT SIZE=2>(21,897</FONT></TD>
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<TD WIDTH="10%" ALIGN="RIGHT"><FONT SIZE=2>8,698</FONT></TD>
<TD WIDTH="2%"><FONT SIZE=2> </FONT></TD>
<TD WIDTH="2%"><FONT SIZE=2> </FONT></TD>
<TD WIDTH="10%" ALIGN="RIGHT"><FONT SIZE=2>66,586</FONT></TD>
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<TD WIDTH="69%"><FONT SIZE=2>Net cash provided by financing activities</FONT></TD>
<TD WIDTH="2%"><FONT SIZE=2> </FONT></TD>
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<TD WIDTH="2%"><FONT SIZE=2> </FONT></TD>
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<TD WIDTH="10%" ALIGN="RIGHT"><FONT SIZE=2>732,381</FONT></TD>
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<TD WIDTH="2%"><FONT SIZE=2> </FONT></TD>
<TD WIDTH="2%"><FONT SIZE=2>$</FONT></TD>
<TD WIDTH="10%" ALIGN="RIGHT"><FONT SIZE=2>752,976</FONT></TD>
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<TR BGCOLOR="#CCEEFF" VALIGN="BOTTOM">
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<TD WIDTH="10%" ALIGN="RIGHT"><FONT SIZE=2> </FONT></TD>
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<TD WIDTH="2%"><FONT SIZE=2>$</FONT></TD>
<TD WIDTH="10%" ALIGN="RIGHT"><FONT SIZE=2>55</FONT></TD>
<TD WIDTH="1%"><FONT SIZE=2> </FONT></TD>
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<TD WIDTH="13%" COLSPAN=2 ALIGN="RIGHT"><HR NOSHADE SIZE=4></TD>
<TD WIDTH="2%"><FONT SIZE=2> </FONT></TD>
<TD WIDTH="13%" COLSPAN=2 ALIGN="RIGHT"><HR NOSHADE SIZE=4></TD>
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</TR>
<TR BGCOLOR="White" VALIGN="BOTTOM">
<TD WIDTH="69%"><FONT SIZE=2>Cash payments for income taxes</FONT></TD>
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<TD WIDTH="2%"><FONT SIZE=2>$</FONT></TD>
<TD WIDTH="10%" ALIGN="RIGHT"><FONT SIZE=2>247,862</FONT></TD>
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<TD WIDTH="2%"><FONT SIZE=2>$</FONT></TD>
<TD WIDTH="10%" ALIGN="RIGHT"><FONT SIZE=2>537,206</FONT></TD>
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<P ALIGN="CENTER"><FONT SIZE=2>See
notes to consolidated financial statements.</FONT></P>

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<P ALIGN="CENTER"><FONT SIZE=2><B>THE CHROMALINE CORPORATION<BR>
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS<BR>
(Unaudited)</B></FONT></P>

<DL compact>
<DT><FONT SIZE=2>1.</FONT></DT><DD><FONT SIZE=2>The
consolidated balance sheet of The Chromaline Corporation (the Company) as of September 30, 1999, and the related
statements of earnings and cash flows for the three and
nine months ended September 30, 1999, have been prepared without being audited.</FONT></DD></DL>
<UL>
<BR>

<P><FONT SIZE=2>In
the opinion of management, these consolidated statements reflect all adjustments (consisting of only normal recurring
adjustments) necessary to present fairly the consolidated financial position of
The Chromaline Corporation as of September 30, 1999, and the results of operations and cash flows for all periods
presented.</FONT></P>

<P><FONT SIZE=2>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 Form 10-SB filing of June 4, 1999.</FONT></P>

<P><FONT SIZE=2>The
results of operations for interim periods are not necessarily indicative of results that will be realized for the full
fiscal year.</FONT></P>


<P><FONT SIZE=2>Comprehensive
income is a measure of all non-owner changes in shareholders' equity and includes such items as net income, certain
foreign currency translation items, minimum pension
liability adjustments and changes in the value of available-for-sale securities. For any of the periods presented,
comprehensive income for The Chromaline Corporation was
equivalent to net income.</FONT></P>

</UL>
<DL compact>
<DT><FONT SIZE=2>2.</FONT></DT><DD><FONT SIZE=2>The
major components of inventory at September 30, 1999 and December 31, 1998 are as follows:</FONT></DD></DL>
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<TH WIDTH="16%" COLSPAN=2 ALIGN="CENTER"><FONT SIZE=1><B>Sept 30, 1999</B></FONT><HR NOSHADE></TH>
<TH WIDTH="2%"><FONT SIZE=1> </FONT></TH>
<TH WIDTH="16%" COLSPAN=2 ALIGN="CENTER"><FONT SIZE=1><B>Dec 31, 1998</B></FONT><HR NOSHADE></TH>
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<TD WIDTH="2%"><FONT SIZE=2> </FONT></TD>
<TD WIDTH="3%"><FONT SIZE=2>$</FONT></TD>
<TD WIDTH="14%" ALIGN="RIGHT"><FONT SIZE=2>614,957</FONT></TD>
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<TD WIDTH="3%"><FONT SIZE=2>$</FONT></TD>
<TD WIDTH="14%" ALIGN="RIGHT"><FONT SIZE=2>524,199</FONT></TD>
<TD WIDTH="2%"><FONT SIZE=2> </FONT></TD>
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<TD WIDTH="60%"><FONT SIZE=2>Work-in-progress</FONT></TD>
<TD WIDTH="2%"><FONT SIZE=2> </FONT></TD>
<TD WIDTH="3%"><FONT SIZE=2> </FONT></TD>
<TD WIDTH="14%" ALIGN="RIGHT"><FONT SIZE=2>358,773</FONT></TD>
<TD WIDTH="2%"><FONT SIZE=2> </FONT></TD>
<TD WIDTH="3%"><FONT SIZE=2> </FONT></TD>
<TD WIDTH="14%" ALIGN="RIGHT"><FONT SIZE=2>409,539</FONT></TD>
<TD WIDTH="2%"><FONT SIZE=2> </FONT></TD>
</TR>
<TR BGCOLOR="#CCEEFF" VALIGN="TOP">
<TD WIDTH="60%"><FONT SIZE=2>Finished goods</FONT></TD>
<TD WIDTH="2%"><FONT SIZE=2> </FONT></TD>
<TD WIDTH="3%"><FONT SIZE=2> </FONT></TD>
<TD WIDTH="14%" ALIGN="RIGHT"><FONT SIZE=2>553,214</FONT></TD>
<TD WIDTH="2%"><FONT SIZE=2> </FONT></TD>
<TD WIDTH="3%"><FONT SIZE=2> </FONT></TD>
<TD WIDTH="14%" ALIGN="RIGHT"><FONT SIZE=2>459,454</FONT></TD>
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<TD WIDTH="60%"><FONT SIZE=2>Reduction to LIFO cost</FONT></TD>
<TD WIDTH="2%"><FONT SIZE=2> </FONT></TD>
<TD WIDTH="3%"><FONT SIZE=2> </FONT></TD>
<TD WIDTH="14%" ALIGN="RIGHT"><FONT SIZE=2>(118,000</FONT></TD>
<TD WIDTH="2%"><FONT SIZE=2>)</FONT></TD>
<TD WIDTH="3%"><FONT SIZE=2> </FONT></TD>
<TD WIDTH="14%" ALIGN="RIGHT"><FONT SIZE=2>(138,000</FONT></TD>
<TD WIDTH="2%"><FONT SIZE=2>)</FONT></TD>
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<TD WIDTH="2%"><FONT SIZE=2> </FONT></TD>
</TR>
<TR BGCOLOR="#CCEEFF" VALIGN="TOP">
<TD WIDTH="60%"><FONT SIZE=2>Total Inventory</FONT></TD>
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<TD WIDTH="14%" ALIGN="RIGHT"><FONT SIZE=2>1,408,944</FONT></TD>
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<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 a U.S. patent owned by the claimant. The Company has filed an answer denying
infringement and further believes the claimant's patent to be invalid, and to have been
procured through inequitable conduct. During fiscal 1997, the Company incurred $445,000 of legal costs for this
matter, including a $250,000 accrual at December 31, 1997 to cover future legal
costs.</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 and the reexamination is presently ongoing. As of September 30, 1999, the USPTO has
on three occasions rejected the claims of the claimant. The claimant has one
remaining appeal to exercise. During the nine months ended September 30, 1999 and the year ended
December 31, 1998, the Company paid approximately $23,000 and $187,000, respectively, in
legal and related costs in the defense of this matter. Such payments were applied against the accrual established at
December 31, 1997. At September 30, 1999, the Company had a remaining
accrual of $40,000 for expected future legal costs relating to this matter.
<!-- ZEQ.=1,SEQ=6,EFW="9927326",CP="CHROMALINE CORPORATION",DN="1",FOLIO=6,FILE='DISK037:
[99STP8.99STP2888]DK2888A.;4',USER='BHUGHES',CD='11-NOV-1999;14:44' -->
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</UL>
<DL compact>
<DT><FONT SIZE=2>4.</FONT></DT><DD><FONT SIZE=2>In
June 1998 the Financial Accounting Standards Board issued Statement of Financial Accounting Standards (SFAS)
No. 133, "Accounting for Derivative Instruments and
Hedging Activities". SFAS No. 133 requires that all derivatives are recognized in the financial statements as
either assets or liabilities measured at fair value and also specifies new methods
of accounting for hedging transactions. The Company has not yet adopted SFAS No. 133. The nature of the business
transactions of the Company are such that no derivative instruments are or are
planned to be used during the normal course of operations.
<BR><BR></FONT></DD><DT><FONT SIZE=2>5.</FONT></DT><DD><FONT SIZE=2>Shareholders'
Equity</FONT></DD></DL>
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September 30, 1999</B></FONT><HR NOSHADE></TH>
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<TD WIDTH="24%" ALIGN="RIGHT"><FONT SIZE=2>4,859,833</FONT></TD>
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<TD WIDTH="71%"><FONT SIZE=2>Net income (unaudited)</FONT></TD>
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<TD WIDTH="3%"><FONT SIZE=2> </FONT></TD>
<TD WIDTH="24%" ALIGN="RIGHT"><FONT SIZE=2>593,611</FONT></TD>
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<TD WIDTH="71%"><FONT SIZE=2>Issuance of 1,750 shares of common stock upon exercise of options (unaudited)</FONT>
</TD>
<TD WIDTH="3%"><FONT SIZE=2> </FONT></TD>
<TD WIDTH="3%"><FONT SIZE=2> </FONT></TD>
<TD WIDTH="24%" ALIGN="RIGHT"><FONT SIZE=2>8,697</FONT></TD>
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<TR BGCOLOR="White" VALIGN="BOTTOM">
<TD WIDTH="71%"><FONT SIZE=2>Tax benefit resulting from exercise of Options (unaudited)</FONT></TD>
<TD WIDTH="3%"><FONT SIZE=2> </FONT></TD>
<TD WIDTH="3%"><FONT SIZE=2> </FONT></TD>
<TD WIDTH="24%" ALIGN="RIGHT"><FONT SIZE=2>2,100</FONT></TD>
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<TD WIDTH="27%" COLSPAN=2 ALIGN="RIGHT"><HR NOSHADE></TD>
</TR>
<TR BGCOLOR="#CCEEFF" VALIGN="BOTTOM">
<TD WIDTH="71%"><FONT SIZE=2>Total Stockholders' Equity (unaudited)</FONT></TD>
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<TD WIDTH="3%"><FONT SIZE=2>$</FONT></TD>
<TD WIDTH="24%" ALIGN="RIGHT"><FONT SIZE=2>5,464,241</FONT></TD>
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<DL compact>
<DT><FONT SIZE=2>6.</FONT></DT><DD><FONT SIZE=2>Net
Income per Common Share</FONT></DD></DL>
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<P><FONT SIZE=2>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.</FONT></P>

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

<P><FONT SIZE=2>    </FONT><FONT
SIZE=2><I>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.</I></FONT></P>

<BR>

<P><FONT SIZE=2><A
NAME="dm2888_item_2._management_s_discussio__ite03644"> </A></FONT><FONT SIZE=2><B>Item 2.  Management's
```

Discussion and Analysis of Financial Condition and Results of Operations.   </B></FONT></P>

<P><FONT SIZE=2>   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 third quarter of 1999, the first nine months of 1999 and the same periods of 1998. They should be read in connection with the Company's unaudited financial statements and notes thereto included in
this Form 10-QSB.</FONT></P>

<P><FONT SIZE=2><B>Factors that May Affect Future Results</B></FONT></P>

<P><FONT SIZE=2>   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:</FONT></P>

<UL>
<DL compact>
<DT><FONT SIZE=2>•</FONT></DT><DD><FONT SIZE=2><I>The Company's plans to continue to invest in research and development efforts and the expected focus and results of such
efforts</I></FONT><FONT SIZE=2>—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.

</FONT></DD><DT><FONT SIZE=2>•</FONT></DT><DD><FONT SIZE=2><I>The expectation that selling, general and administrative expenses will remain at current levels during the fourth quarter of
1999</I></FONT><FONT SIZE=2>—This expectation may be impacted by general economic conditions and unanticipated events causing changes in expenses or sales.

</FONT></DD><DT><FONT SIZE=2>•</FONT></DT><DD><FONT SIZE=2><I>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</I></FONT><FONT SIZE=2>—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.

</FONT></DD><DT><FONT SIZE=2>•</FONT></DT><DD><FONT SIZE=2><I>The Company's belief that its vulnerability to foreign currency fluctuations and general economic conditions in foreign countries
is not significant</I></FONT><FONT SIZE=2>—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.

</FONT></DD><DT><FONT SIZE=2>•</FONT></DT><DD><FONT SIZE=2><I>The Company's belief that evaluations of and modifications to its year 2000 compliance status, including year 2000 compliance of
third-party suppliers, will not have a material adverse effect on the Company's operations or financial position</I></FONT><FONT SIZE=2>—This belief may be impacted by presently
unanticipated delays in assessment or remediation, unanticipated increases in costs or non-compliance by third parties.

</FONT></DD><DT><FONT SIZE=2>•</FONT></DT><DD><FONT SIZE=2><I>The Company's expectations of the time and costs associated with its year 2000 project</I></FONT><FONT SIZE=2>—These
expectations may be impacted by presently unanticipated delays in assessment, unanticipated increases in costs or non-compliance by third parties.

</FONT></DD><DT><FONT SIZE=2>•</FONT></DT><DD><FONT SIZE=2><I>The Company's efforts to grow its international business</I></FONT><FONT SIZE=2>—These efforts may be impacted by
economic, political and social conditions in current and anticipated foreign markets, regulatory
<!-- ZEQ.=1,SEQ=8,EFW="9927326",CP="CHROMALINE CORPORATION",DN="1",FOLIO=8,FILE='DISK037:[99STP8.99STP2888]DM2888A.;5',USER='BHUGHES',CD='11-NOV-1999;14:44' -->
conditions in such markets, unanticipated changes in expenses or sales, changes in competitive conditions or other barriers to entry or expansion.

</FONT></DD><DT><FONT SIZE=2>•</FONT></DT><DD><FONT SIZE=2><I>The Company's plan to seek acquisitions</I></FONT><FONT SIZE=2>—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.</FONT></DD></DL>
</UL>

<P><FONT SIZE=2><B>Results of Operations</B></FONT></P>

<P><FONT SIZE=2><B><I>Quarter Ended September 30, 1999 Compared to Quarter Ended September 30, 1998</I></B></FONT></P>

<P><FONT SIZE=2><I>   Sales.</I></FONT><FONT SIZE=2> The Company's sales during the third quarter of 1999 increased to $2.47 million, a 7.5% increase from the
$2.30 million in sales during the same period in 1998. The increase was attributable to higher sales across all geographic areas.</FONT></P>

<P><FONT SIZE=2><I>   Cost of Goods Sold.</I></FONT><FONT SIZE=2> The cost of goods sold during the third quarter of 1999 was $1.19 million, or 47.9% of
sales, compared to $1.03 million, or 44.9% of sales, during the same period in 1998</FONT><FONT SIZE=2><I>.</I></FONT><FONT SIZE=2> The increase in 1999 was due to increased costs related to
competitive market forces and certain production related costs.</FONT></P>

<P><FONT SIZE=2><I>   Selling, General and Administrative Expenses.</I></FONT><FONT SIZE=2> Selling, general and administrative expenses decreased to $842,000, or
34.0% of sales, in the third quarter of 1999, from $857,000, or 37.2% of sales, for the same period in 1998. The decrease was due primarily to non-recurring costs experienced in 1998
related to the retirement of two senior officers.</FONT></P>

<P><FONT SIZE=2><I>   Research and Development Expenses.</I></FONT><FONT

SIZE=2> Research and development expenses during the third quarter of 1999 decreased to
$161,000, or 6.5% of sales, from $178,000, or 7.7%, for the same period in 1998. The decrease was attributable to
certain short-term product development projects that have been deferred.
The Company intends to continue to invest in research and development as appropriate to maintain its innovation.
</FONT></P>

<P><FONT SIZE=2><I>   Income Taxes.</I></FONT><FONT SIZE=2> Income taxes increased to
$113,000, or an effective rate of 37%, during the third quarter of 1999 from
$92,000, or an effective rate of 38%, for the third quarter of 1998, due to the Company's increase in pretax income in
1999.</FONT></P>

<P><FONT SIZE=2><B><I>Nine Months Ended September 30, 1999 Compared to the Nine Months Ended September 30,
1998</I></B></FONT></P>

<P><FONT SIZE=2><I>   Sales.</I></FONT><FONT SIZE=2> The Company's sales during the
nine months ended September 30, 1999 increased 3.3% to
$7.26 million compared to $7.03 million for the same period in 1998. This reflects a 9.0% increase in
domestic United States sales offset by lower international sales due to the slow
recovery of foreign markets the Company serves from recent economic crises.</FONT></P>

<P><FONT SIZE=2><I>   Cost of Goods Sold.</I></FONT><FONT SIZE=2> The cost of goods
sold during the nine months ended September 30, 1999 was
$3.35 million, or 46.2% of sales, compared to $3.16 million, or 45.0% of sales, for the same period in 1998.
The increase as a percentage of sales, reflects the Company's product mix
primarily during the first and third quarters of 1999. Cost of goods sold was significantly lower as a percentage of
sales during the second quarter of 1999 due to a favorable product mix for domestic
U.S. and European sales.</FONT></P>

<P><FONT SIZE=2><I>   Selling, General and Administrative.</I></FONT><FONT
SIZE=2> Selling, general and administrative expenses in the nine months ended
September 30, 1999 increased to $2.50 million, or 34.4% of sales, from $2.25 million, or 32.0% of
sales, for the same period in 1998. This increase was due to higher worldwide
expenditures for product promotion and marketing. These expenses are expected to remain at current levels during the
fourth quarter of 1999. The increase was also due to approximately $40,000 in costs
associated with the filing of the Company's Form 10-SB which became effective June 4, 1999. In 1999, the
Company
<!-- ZEQ.=2,SEQ=9,EFW="9927326",CP="CHROMALINE CORPORATION",DN="1",FOLIO=9,FILE='DISK037:
[99STP8.99STP2888]DM2888A.;5',USER='BHUGHES',CD='11-NOV-1999;14:44' -->
incurred approximately $25,000 in costs associated with Year 2000 compliance. These costs were partially offset by
non-recurring costs incurred in 1998 related to the retirement of two
senior officers.</FONT></P>

<P><FONT SIZE=2><I>   Research and Development Expenses.</I></FONT><FONT
SIZE=2> Research and development expenses for the nine months ended September 30,
1999 increased to $502,000, or 6.9% of sales, from $496,000, or 7.1% of sales, for the same period in 1998. The
increase reflects costs associated with new product
development</FONT><FONT SIZE=2><I>.</I></FONT></P>

<P><FONT SIZE=2><I>   Income Taxes.</I></FONT><FONT SIZE=2> Income taxes for the nine
months ended September 30, 1999 decreased to $348,000, or an effective
rate of 37%, from $438,000, or an effective rate of 38%, for the same period in 1998 due to the Company's lower pretax
income.</FONT></P>

<P><FONT SIZE=2><B>Liquidity and Capital Resources</B></FONT></P>

<P><FONT SIZE=2>   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.</FONT></P>

<P><FONT SIZE=2>   Cash
and cash equivalents were $641,000 and $275,000 at September 30, 1999 and December 31, 1998, respectively.
The Company generated $722,000 in cash from operating
activities during the nine months ended September 30, 1999 and $348,000 for the same period in 1998. Cash
generated by operating activities is primarily provided by net income as adjusted for
non-cash depreciation. During the first nine months of 1999, trade receivables increased by $244,000 as the Company
modified its export sales terms in accordance with global market
conditions. Prepaid expenses increased $74,000 reflecting the acquisition of a new product line. Inventories
increased $154,000 due to new products entering the marketplace. Accounts payable increased
$148,000, accrued expenses increased $81,000 reflecting payroll and fringe benefit requirements, and income taxes
payable increased $140,000. For the nine months ended September 30, 1998, trade
receivables decreased $36,000 while inventories increased $226,000 reflecting the new products developed last year
for the market. Accounts payable increased $22,000, accrued expenses decreased
$60,000 and accrued legal costs decreased $171,000. Income taxes payable decreased $99,000 for the same period in
1998.</FONT></P>

<P><FONT SIZE=2>   The
Company used $387,000 and $265,000 in cash for investing activities during the nine months ended September 30,
1999 and September 30, 1998, respectively. In both
periods net cash used for investing activities was used primarily for plant and equipment. During the third quarter
of 1998, the Company purchased municipal revenue bonds that are carried at fair
value and classified and accounted as "available for sale". Any unrealized gains or losses are included in equity.
These unrealized gains and losses were not material for the third quarter of 1999.</FONT></P>

<P><FONT SIZE=2>   The

Company generated $9,000 in cash from financing activities during the nine months ended September 30, 1999 as a result of the exercise of stock options. During the same
period of 1998, $67,000 in cash was generated from the exercise of stock options, which was offset by a $22,000 payment on the Company's revolving credit line.</FONT></P>

<P><FONT SIZE=2>   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 to a material extent and there is no debt outstanding under this line
as of September 30, 1999.</FONT></P>

<P><FONT SIZE=2>   The
Company believes that 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. Future activities undertaken to expand the Company's business may include acquisitions, building expansion and additions, equipment additions, new product
development and marketing opportunities.
<!-- ZEQ.=3,SEQ=10,EFW="9927326",CP="CHROMALINE CORPORATION",DN="1",FOLIO=10,FILE='DISK037:
[99STP8.99STP2888]DM2888A.;5',USER='BHUGHES',CD='11-NOV-1999;14:44' -->
</FONT></P>

<P><FONT SIZE=2><B>Capital Expenditures</B></FONT></P>

<P><FONT SIZE=2>   As of September 30, 1999, the Company had spent $387,000 on capital expenditures during 1999. This spending during the first nine months of 1999
included manufacturing equipment upgrades to improve efficiency and reduce operating costs, new laboratory instrumentation, building facility upgrades and new vehicles under its rotating replacement
policy.</FONT></P>

<P><FONT SIZE=2>   Commitments
for capital expenditures include building maintenance, research and development equipment to modernize the capabilities and processes of Chromaline's laboratory and
research and development to improve measurement and quality control processes. These commitments are funded with cash generated from operating activities.</FONT></P>

<P><FONT SIZE=2><B>International Activity</B></FONT></P>

<P><FONT SIZE=2>   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 32% of total sales for the nine months ended September 30, 1999. This compared with foreign sales accounting for 33% of total sales during the same period in 1998. Foreign sales
in 1999 are being affected by overseas economies that are slow in recovering from recent economic crises. Recent weakening 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.</FONT></P>

<P><FONT SIZE=2>   Substantially
all of the Company's foreign transactions are negotiated, invoiced and paid in U.S. dollars. 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 September 30,
1999.</FONT></P>

<P><FONT SIZE=2>   Effective
January 1, 1999, eleven states of the European Union began the conversion to a common currency, called the "euro". This action will most likely cause a portion of
Chromaline's European transactions to be negotiated, invoiced and paid in "euros". The conversion will most likely add currency exchange costs and risks. As of September 30, 1999, the impact of
the "euro" conversion has not significantly affected the Company's results.</FONT></P>

<P><FONT SIZE=2><B>Year 2000 Issue</B></FONT></P>

<P><FONT SIZE=2>   The year 2000 issue is the result of certain computer systems that recognize the year using only the last two digits. Any system utilizing
time-sensitive programming may recognize the date using "00" as the year 1900 rather than the year 2000. This could result in systems failures that may disrupt normal business operations.</FONT></P>

<P><FONT SIZE=2>   The
Company began a comprehensive project in 1998 to test and prepare its internal systems for the year 2000. The Company has substantially completed this project with the balance to
be finalized early in the fourth quarter of 1999. The project has replaced all non-compliant software and hardware with systems that are year 2000 compliant. This includes a review of both
information technology and non-information technology systems. A survey of major suppliers has been conducted as part of the project to assess the readiness of the Company's business
associates. If the necessary conversions are not completed on a timely basis, the year 2000 could have a material adverse effect on Chromaline's operations. Overall, management believes the year 2000
will not have a significant impact on operations.</FONT></P>

<P><FONT SIZE=2>   As
of September 30, 1999, the Company has spent approximately $70,000 on the project. The total cost of the project is expected to be approximately $75,000. This cost includes
replacing non-compliant hardware and software. It also includes the internal human resource time to conduct systems

and
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[99STP8.99STP2888]DM2888A.;5',USER='BHUGHES',CD='11-NOV-1999;14:44' -->
vendor surveys and implement the required changes needed to become year 2000 compliant. Management believes that this expenditure is not material to the Company and will not adversely impact
Chromaline's financial condition or liquidity.</FONT></P>

<P><FONT SIZE=2>   Chromaline
faces risk to the extent that suppliers of products and services purchased by the Company and others with whom it transacts business on a world-wide basis do
not have business products and services that comply with year 2000 requirements. The Company distributed a survey to its suppliers during the second quarter of 1999 regarding their state of readiness
for the year 2000. As of September 30, 1999, the Company has received responses from 75% of its key suppliers, all of which gave assurances that they will be year 2000 compliant. In the event
that a significant number of these third parties cannot, in a timely manner, provide the Company with products and services because of the year 2000 issue, Chromaline's operating results could be
materially adversely affected.</FONT></P>

<P><FONT SIZE=2>   The
Company is addressing contingency plans in the event of year 2000 disruptions. With respect to the Company's internal production and administrative systems, the Company believes
sufficient alternative plans are in place to adequately conduct business. These plans include the identification of back-up and manual systems necessary to conduct normal business
operations. While Chromaline believes that its year 2000 project and contingency plans are sufficient, there can be no assurance that the year 2000 will not materially adversely affect its business,
operating or financial condition.</FONT></P>

<P><FONT SIZE=2><B>Future Outlook</B></FONT></P>

<P><FONT SIZE=2>   Chromaline has invested over 6% of its sales dollars for the past several years on research and development. The Company plans to expand 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 film, emulsion
and self-adhesive products, Chromaline's research and development efforts will also focus on improving the efficiency of its automated photo developers for the decorative sand blasting
product line.</FONT></P>

<P><FONT SIZE=2>   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.</FONT></P>

<P><FONT SIZE=2>   In
June 1999, the Company introduced a line of glass and crystal to increase its product offering to the decorative sand carving market. It is presently anticipated that these
new products will move the Company closer to being a full service provider to this growing industry.</FONT></P>

<P><FONT SIZE=2>   During
the second quarter of 1999, the Company began evaluating potential acquisitions. The Company plans to look for opportunities that complement its existing business and
technologies. The search and evaluation process continues to proceed in a cautious and prudent manner. The Company's goal is to capitalize on its strong cash and low debt positions as well as the
strengths of the Company's core businesses in order to grow shareholder value.</FONT></P>

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<P ALIGN="CENTER"><FONT SIZE=2><A
NAME="do2888_part_ii._other_information"> </A></FONT><FONT SIZE=2><B>PART II. OTHER INFORMATION </B></FONT></P>

<P><FONT SIZE=2><A
NAME="do2888_item_1._legal_proceedings"> </A></FONT><FONT SIZE=2><B>ITEM 1. Legal Proceedings </B>
</FONT></P>

<P><FONT SIZE=2>   On October 22, 1996, Aicello North America, Inc., a Canadian corporation ("ANA"), filed suit against the Company in the United States District
Court for the Western District of Washington, alleging infringement by the Company of U.S. Patent No. 5,427,890 (the "890 patent"). Later, ANA added U.S. Patent No. 5,629,132 (the "132
patent") to the lawsuit. The 890 patent and the 132 patent had been assigned to Aicello Chemical Co. Ltd. of Japan ("ACLJ") on October 22, 1996 and were licensed to ANA shortly before
filing of the present infringement action. At Chromaline's request, ACLJ was joined to the suit. The subjects of the patents and the allegedly infringing Chromaline products are three-layer
photosensitive films used to engrave patterns or designs into hard surfaces such as metal, glass, stone and wood.
</FONT></P>

<P><FONT SIZE=2>   The
Company and ANA attempted to settle the suit with two mediation sessions that did not result in a settlement. Following these mediations, Chromaline requested in
August 1998 that the U.S. Patent and Trademark Office ("USPTO") reexamine the 890 patent and the 132 patent. This request was granted as to both patents in November 1998 and the lawsuit

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was stayed pending this review. A favorable ruling by the USPTO may result in the dismissal of the case. In the
USPTO's </FONT><FONT SIZE=2><I>Office Action in Reexamination</I></FONT><FONT SIZE=2> dated February 23,
1999, the USPTO
initially rejected the plaintiff's claims of patent infringement. The </FONT><FONT SIZE=2><I>Office
Action</I></FONT><FONT SIZE=2> required the ANA and ACLJ to respond within 60 days, which they did. The USPTO's
subsequent </FONT><FONT SIZE=2><I>Office Action</I></FONT><FONT SIZE=2> once
again rejected the plaintiff's claims of patent infringement. The plaintiff filed their final response with the USPTO
on August 2, 1999. The USPTO examiner then issued a Reexamination Advisory
Action rejecting all claims of the patents on August 23, 1999. The plaintiff appealed to the Board of Appeals of
the USPTO on September 2, 1999.</FONT></P>

<P><FONT SIZE=2>    The
Company has made provisions to cover certain legal proceedings and related costs and expenses as described in
note 3 to its unaudited consolidated financial statements
included herein. However, the ultimate outcome and materiality of these matters cannot be determined. Accordingly, no
provision for any liability that may result therefrom has been made in the
unaudited consolidated financial statements.</FONT></P>

<BR>

<P><FONT SIZE=2><A
NAME="do2888_item_2._changes_in_securities"> </A></FONT><FONT SIZE=2><B>ITEM 2.  Changes in Securities
</B></FONT></P>


<P><FONT SIZE=2>    None</FONT></P>

<BR>

<P><FONT SIZE=2><A
NAME="do2888_item_3._defaults_upon_senior_securities"> </A></FONT><FONT SIZE=2><B>ITEM 3.  Defaults upon
Senior Securities   </B></FONT></P>

<P><FONT SIZE=2>    Not applicable</FONT></P>

<BR>

<P><FONT SIZE=2><A
NAME="do2888_item_4._submission_of_m__do202418"> </A></FONT><FONT SIZE=2><B>ITEM 4.  Submission of Matters
to a Vote of Security Holders   </B></FONT></P>

<P><FONT SIZE=2>    None</FONT></P>

<BR>

<P><FONT SIZE=2><A
NAME="do2888_item_5._other_information"> </A></FONT><FONT SIZE=2><B>ITEM 5.  Other Information   </B>
</FONT></P>


<P><FONT SIZE=2>    None
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[99STP8.99STP2888]DO2888A.;9',USER='BHUGHES',CD='11-NOV-1999;14:58' -->
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<BR>

<P><FONT SIZE=2><A
NAME="do2888_item_6._exhibits_and_reports_on_form_8-k"> </A></FONT><FONT SIZE=2><B>ITEM 6.  Exhibits and
Reports on Form 8-K   </B></FONT></P>

<P><FONT SIZE=2>    </FONT><FONT
SIZE=2><B>(a) Exhibits</B></FONT></P>

<P><FONT SIZE=2>    The
following exhibits are filed as part of this Quarterly Report on Form 10-QSB for the quarterly period ended
September 30, 1999:</FONT></P>

<!-- User-specified TAGGED TABLE -->
<TABLE WIDTH="79%" BORDER=0 CELLSPACING=0 CELLPADDING=0>
<TR VALIGN="BOTTOM">
<TH WIDTH="8%" ALIGN="CENTER"><FONT SIZE=1><B>Exhibit</B></FONT><HR NOSHADE></TH>
<TH WIDTH="2%"><FONT SIZE=1> </FONT></TH>
<TH WIDTH="89%" ALIGN="LEFT"><FONT SIZE=1><B>Description<BR></B></FONT><HR NOSHADE></TH>
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<TD WIDTH="8%" ALIGN="RIGHT"><FONT SIZE=2>3.1</FONT></TD>
<TD WIDTH="2%"><FONT SIZE=2> </FONT></TD>
<TD WIDTH="89%"><FONT SIZE=2>Restated Articles of Incorporation of Company, as amended.(1)</FONT></TD>
</TR>
<TR VALIGN="TOP">
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<TD WIDTH="2%"><FONT SIZE=2> </FONT></TD>
<TD WIDTH="89%"><FONT SIZE=2>By-Laws of the Company, as amended.(1)</FONT></TD>
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<TD WIDTH="89%"><FONT SIZE=2>Financial Data Schedule</FONT></TD>
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<P><FONT SIZE=2>    Copies
of Exhibits will be furnished upon request and payment of the Company's reasonable expenses in furnishing the
Exhibits.</FONT></P>

<P><FONT SIZE=2>    </FONT><FONT
SIZE=2><B>(b) Reports on Form 8-K</B></FONT></P>

<P><FONT SIZE=2>    No
reports on Form 8-K were filed by the registrant during the quarterly period ended September 30, 1999.
</FONT></P>

<HR NOSHADE ALIGN=LEFT WIDTH=120>
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<DL compact>
<DT><FONT SIZE=2>(1)</FONT></DT><DD><FONT SIZE=2>Incorporated
by reference to the like numbered Exhibit to the Company's Registration Statement on Form 10-SB (File
No. 000-25727).</FONT>
<P ALIGN="CENTER"><FONT SIZE=2>
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</FONT></P>

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

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

<P><FONT SIZE=2>    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.</FONT></P>

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<TD WIDTH="50%" COLSPAN=2><FONT SIZE=2>THE CHROMALINE CORPORATION</FONT></TD>
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<TR VALIGN="TOP">
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DATE: November 12, 1999</FONT></TD>
<TD WIDTH="2%"><FONT SIZE=2> <BR> </FONT></TD>
<TD WIDTH="4%"><FONT SIZE=2> <BR>
By:</FONT></TD>
<TD WIDTH="46%" ALIGN="CENTER"><FONT SIZE=2> <BR>
/s/ </FONT><FONT SIZE=2>JEFFERY A. LAABS</FONT><FONT SIZE=2>   </FONT><HR NOSHADE><FONT SIZE=2>
Jeffery A. Laabs,<BR></FONT><FONT SIZE=2><I>Vice President of Finance, Controller,<BR>
Treasurer and Secretary<BR>
(Duly authorized officer and<BR>
Principal Financial Officer)</I></FONT></TD>
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NAME="do2888_index_to_exhibits"> </A></FONT><FONT SIZE=2><B>INDEX TO EXHIBITS  </B></FONT></P>

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COMPUTATION OF NET EARNINGS PER COMMON SHARE<BR>
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