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

FORM 10-QSB

(Mark One)

[X] Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 For the Quarterly Period Ended March 31, 2002

or

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

Commission file number 000-25727

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

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

(218) 628-2217
Issuer's telephone number

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

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes [X] No [_]

State the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practical date: Common Stock, $.10 par value - 1,248,127 shares outstanding as of May 10, 2002.

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

THE CHROMALINE CORPORATION

QUARTERLY REPORT ON FORM 10-QSB

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PART I -- FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

THE CHROMALINE CORPORATION
BALANCE SHEETS

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	MARCH 31 2002 (UNAUDITED)	DECEMBER 31 2001
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 187,539	$ 543,679
Marketable securities	238,731	237,154
Trade receivables, less allowance for doubtful accounts of $82,943 and $100,000, respectively	1,857,461	1,472,982
Inventories	1,579,837	1,605,670
Prepaid expenses and other assets	136,260	118,178
Income tax refund receivable	119,372	133,030
Deferred taxes	68,000	68,000
Total current assets	4,187,200	4,178,693
PROPERTY, PLANT, AND EQUIPMENT, at cost:		
Land and building	1,355,588	1,355,588
Machinery and equipment	2,195,798	2,189,159
Office equipment	1,084,337	1,036,077
Vehicles	136,094	223,265
	4,771,817	4,804,089
Less accumulated depreciation	3,489,243	3,501,330
	1,282,574	1,302,759
PATENT, net of amortization of $35,042 and $32,788, respectively	74,236	76,490
NONCOMPETE AGREEMENT, net of amortization of $11,667 and $10,000, respectively	88,333	90,000
OTHER	187,500	187,500
DEFERRED TAXES	213,000	213,000
	$ 6,032,843	$ 6,048,442
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	$ 283,683	$ 297,556
Accrued compensation	199,455	143,338
Other accrued expenses	20,481	27,508
Total current liabilities	503,619	468,402
CONTINGENCIES		
STOCKHOLDERS' EQUITY:		
Preferred stock, par value $.10 per share; authorized 250,000 shares; issued none Common stock, par value $.10 per share; authorized 4,750,000 shares; issued and outstanding 1,248,127 shares and 1,271,627 shares, respectively	124,813	127,163
Additional paid-in capital	1,269,489	1,293,460
Retained earnings	4,147,122	4,170,246
Accumulated other comprehensive income (loss)	(12,200)	(10,829)

Total stockholders' equity	5,529,224	5,580,040
	$ 6,032,843	$ 6,048,442

</TABLE>

See notes to financial statements.

THE CHROMALINE CORPORATION
STATEMENTS OF EARNINGS (UNAUDITED)

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	THREE MONTHS ENDED MARCH 31	
	2002	2001
SALES	$2,782,372	$ 2,858,012
COSTS AND EXPENSES:		
Cost of goods sold	1,623,687	1,542,514
Selling, general, and administrative	950,561	1,005,794
Research and development	179,322	192,817
	2,753,570	2,741,125
INCOME FROM OPERATIONS	28,802	116,887
INTEREST INCOME	8,349	18,015
INCOME BEFORE INCOME TAXES	37,151	134,902
FEDERAL AND STATE INCOME TAXES	14,104	46,500
NET INCOME	$ 23,047	$ 88,402
EARNINGS PER SHARE:		
Basic	$ 0.02	$ 0.07
Diluted	$ 0.02	$ 0.07
WEIGHTED AVERAGE COMMON SHARES ASSUMED OUTSTANDING:		
Basic	1,263,916	1,271,627
Diluted	1,263,916	1,275,487

</TABLE>

See notes to financial statements.

THE CHROMALINE CORPORATION
STATEMENTS OF CASH FLOWS (UNAUDITED)

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	THREE MONTHS ENDED MARCH 31	
	2002	2001
CASH FLOWS FROM OPERATING ACTIVITIES:		

Net income	$ 23,047	$ 88,402
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	122,845	104,373
Gain on disposed assets	(19,632)	
Changes in working capital components:		
Decrease (increase) in:		
Trade receivables	(384,479)	(280,904)
Prepaid expenses and other assets	(18,082)	(214,956)
Inventories	25,833	(65,544)
Income tax refund receivable	13,658	
(Decrease) increase in:		
Accounts payable	(13,873)	(34,347)
Accrued expenses	49,090	41,878
Income taxes payable		51,755
Net cash used in operating activities	(201,593)	(309,343)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	(79,105)	(4,454)
Net activity in marketable securities	(2,950)	450,588
Note receivable		(50,000)
Net cash (used in)/provided by investing activities	(82,055)	396,134
CASH FLOWS FRON FINANCING ACTIVITIES:		
Re-purchase of company stock	(72,492)	
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(356,140)	86,791
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	543,679	71,493
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 187,539	$ 158,284
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash payments for income taxes	$ 446	$ 5,255

</TABLE>

See notes to financial statements.

THE CHROMALINE CORPORATION

NOTES TO FINANCIAL STATEMENTS

(Unaudited)

1. Notes to Financial Statements

The balance sheet of The Chromaline Corporation (the Company) as of March 31, 2002, and the related statements of earnings and cash flows for the three months ended March 31, 2002 and 2001, have been prepared without being audited.

In the opinion of management, these statements reflect all adjustments (consisting of only normal recurring adjustments) necessary to present fairly the financial position of The Chromaline Corporation as of March 31, 2002, and the results of operations and cash flows for all periods presented.

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

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

2. Inventory

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

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	Mar 31, 2002	Dec 31, 2001
Raw materials	$ 606,834	$ 638,424
Work-in-progress	265,105	236,493
Finished goods	926,946	942,301
Reduction to LIFO cost	(219,048)	(211,548)
Total Inventory	$ 1,579,837	$1,605,670

</TABLE>

3. Stockholders' Equity

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	Three Months Ended March 31, 2002
Total Stockholders' Equity-December 31, 2001	$ 5,580,040
Net income	$23,047
Unrealized loss on available-for-sale investments	(1,371)
Comprehensive income	21,676
Stock re-purchase	(72,492)
Total Stockholders' Equity-March 31, 2002	$ 5,529,224

</TABLE>

4. Net Income per Common Share

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

The 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 2002 and the same period of 2001. It should be read in connection with the Company's unaudited financial statements and notes thereto included in this Form 10-QSB.

FACTORS THAT MAY AFFECT FUTURE RESULTS

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

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

- The Company's plans to continue to invest in research and development efforts and to invest in strategic alliances and the expected focus and results of such investments--These plans and expectations may be impacted by general market conditions, unanticipated changes in expenses or sales, delays in the development of new products, technological advances, the ability to find suitable and willing strategic partners or other changes in competitive or market conditions.

- 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.

CRITICAL ACCOUNTING POLICIES

The Company prepares the financial statements in conformity with accounting principles generally accepted in the United States of America. Therefore, the Company is required to make certain estimates, judgments and

assumptions that the Company believes are reasonable based upon the information available. These estimates and assumptions affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the periods presented. The critical accounting policies, which Chromaline believes are the most critical to aid in fully understanding and evaluating its reported financial results, include the following:

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

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

RESULTS OF OPERATIONS

QUARTER ENDED MARCH 31, 2002 COMPARED TO QUARTER ENDED MARCH 31, 2001

Sales. The Company's sales during the first quarter of 2002 decreased to $2.78 million, or 2.8%, from the $2.86 million in sales during the same period in 2001. Sales to the domestic screen printing industry fell 14% from the first quarter of 2001 due to continued weakness in the electronics industry. International sales were down 8% from the first quarter of 2001 due to competitive pressures and a weak European economy. Sales of the Company's PhotoBrasive products increased 31% over the first quarter of 2001 due to increased sales of its glass and crystal products as well as higher film sales reflecting a recovery following settlement of the Aicello patent lawsuit in January 2001.

Cost of Goods Sold. Cost of goods sold during the first quarter of 2002 was $1.62 million, or 58.0% of sales, compared to $1.54 million, or 54.0% of sales, during the same period in 2001. The increase in the first quarter of 2002 was due to a shift in the Company's product mix within its domestic screen printing and decorative sandcarving markets. In the screen printing market, higher margin film sales were replaced by lower margin emulsion sales. In the sandcarving market, sales have increased for crystal glass and for equipment promotions, but both have lower margins than film products.

Selling, General and Administrative Expenses. Selling, general and administrative expenses decreased to $951,000, or 34.2% of sales, in the first quarter of 2002, from $1,006,000, or 35.2% of sales, for the same period in 2001. Expenses for travel, supplies and commissions were lower in the first quarter of 2002. Expenses during the first quarter of 2002 were also offset by a $19,632 gain from the sale of four of the Company's vehicles. The first quarter of 2001 included a $30,000 increase in the Company's bad debt allowance reflecting the risk associated with an increased presence in Europe and India. The first quarter of 2001 also included legal fees of $25,000 related to the settlement of the Aicello lawsuit.

Research and Development Expenses. Research and development expenses during the first quarter of 2002 were $179,000, or 6.4% of sales, versus $193,000, or 6.8% of sales, for the same period in 2001. The reduction was due to lower production trial costs and lab supplies.

Interest Income. Interest income decreased to $8,000 for the first quarter of 2002 compared to $18,000 for the same period in 2001. The decrease was due to the utilization of these cash resources for the Aicello royalty payment and the repurchase of 23,500 shares of the Company's Common Stock in the first quarter of 2002.

Income Taxes. Income taxes decreased to $14,000, or an effective rate of 38%, during the first quarter of 2002 from $47,000, or an effective rate of 35%, for the first quarter of 2001. The difference in the effective rate was due to permanent differences for allowable tax deductions.

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, and research and development expenditures.

Cash and cash equivalents were $188,000 and $158,000 at March 31, 2002 and March 31, 2001, respectively. The Company used $202,000 in cash from operating activities during the three months ended March 31, 2002 and used $309,000 in cash during the same period in 2001. Cash used by operating activities is primarily provided by net income as adjusted for non-cash depreciation. During the first three months of 2002, trade receivables increased $384,000 reflecting a normal historical first quarter build up. To a lesser extent, the build up in trade receivables was a result of slower domestic screen print customer payments due to economic conditions. Prepaid expenses increased $18,000 due to higher insurance payments. Inventory levels dropped $26,000. Accounts payable decreased $14,000 and accrued expenses increased $49,000 reflecting quarter end payroll accrual requirements. During the first three months of 2001, trade receivables increased by $281,000 reflecting increased sales of Nichols products and sales to the European region. Prepaid expenses increased $215,000 reflecting a $150,000 prepaid royalty to Aicello as part of the lawsuit settlement discussed earlier. It also reflects $73,000 in prepaid production costs for an ultraviolet radiometer developed by Apprise and marketed by the Company beginning in the second quarter of 2001. Inventories increased $66,000 primarily due to an increase in raw materials. Accounts payable decreased $34,000 and accrued expenses increased $42,000.

The Company used $79,000 and provided $396,000, in cash for investing activities during the three months ended March 31, 2002 and March 31, 2001, respectively. During the first three months of 2002, the Company purchased $79,000 in capital equipment and business software. During the first quarter of 2001, the Company sold a certain number of its investment holdings in general revenue obligation bonds. These proceeds were used to participate in a $50,000 bridge loan to Apprise Technologies of Duluth, Minnesota that converted into stock and warrants on July 1, 2001. These proceeds also funded the $150,000 prepaid royalty to Aicello as part of the license agreement and funded the $73,000 prepaid production costs to Apprise for the radiometer project.

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

A bank line of credit exists providing for borrowings of up to $1,250,000. Outstanding debt under this line of credit is collateralized by accounts receivable and inventory and bears interest at 2.25 percentage points over the 30-day LIBOR rate. The Company has not utilized this line of credit and there was no debt outstanding under this line as of March 31, 2002.

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

CAPITAL EXPENDITURES

Through March 31, 2002, the Company spent $79,105 on capital expenditures in 2002. This spending included plant equipment upgrades to improve efficiency and reduce operating costs, additions to the Company's new business software implemented in January 2002, the purchase of a new vehicle under the Company's rotating replacement policy for outside salespeople and improvements to the Company's trade show booths.

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

INTERNATIONAL ACTIVITY

The Company markets its products to over 50 countries in North America, Europe, Latin America, Asia and other parts of the world. Foreign sales were approximately 34% of total sales for the three months ended March 31, 2002. This compares with foreign sales accounting for 37% of total sales during the same period in 2001. Foreign sales decreased as a percentage of total sales in the first quarter of 2002 due to competitive pressures. Foreign sales increased as a percentage of total sales in the first quarter of 2001 primarily due to increased sales volume in the European region. The 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.

Substantially all of the Company's foreign transactions are negotiated, invoiced and paid in U.S. dollars. A portion of the Company's foreign sales invoiced and paid in Eurodollars. 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 March 31, 2002.

FUTURE OUTLOOK

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

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

In the fourth quarter of 2000, the Company began distributing a waterproof ink jet printer film for the creation of film positives in the printing industry. This technology positions the Company for growth in the digital market. Acceptance of this film has been high and sales growth is anticipated to continue.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

None

ITEM 2. CHANGES IN SECURITIES

None

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Not applicable

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

None

ITEM 5. OTHER INFORMATION

None

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(A) EXHIBITS

The following exhibits are filed as part of this Quarterly Report on Form 10-QSB for the quarterly period ended March 31, 2002:

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

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

(B) REPORTS ON FORM 8-K

No reports on Form 8-K were filed by the registrant during the quarterly period ended March 31, 2002.

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

THE CHROMALINE CORPORATION

SIGNATURES

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

THE CHROMALINE CORPORATION

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

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

INDEX TO EXHIBITS

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Exhibit	Description	Page
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3.1	Restated Articles of Incorporation of Company, as amended......................	Incorporated by Reference
3.2	By-Laws of the Company, as amended...	Incorporated by Reference
11	Computation of Net Earnings per Common Share...................................	Filed Electronically

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THE CHROMALINE CORPORATION

COMPUTATION OF NET EARNINGS PER COMMON SHARE

(Unaudited)

	Three Months Ended	
	Mar 31, 2002	Mar 31, 2001
Net earnings applicable to common shareholders for basic and diluted earnings per share	$ 23,407	$ 88,402
Weighted average shares outstanding for basic earnings per share	1,263,916	1,271,627
Dilutive effect of stock options computed using the treasury stock method and the average market price	0	3,860
Weighted average shares outstanding for diluted earnings per share	1,263,916	1,275,487
Basic earnings per share	$ 0.02	$ 0.07
Diluted earnings per share	$ 0.02	$ 0.07