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CHROMALINE CORP
Form 10QSB
November 13, 2002

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

FORM 10-QSB

(Mark One)

- Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 For the Quarterly Period Ended September 30, 2002
or
 Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 For the Transition Period From _____ to _____.

Commission file number 000-25727

THE CHROMALINE CORPORATION

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

Minnesota

(State or other jurisdiction of incorporation or organization)

41-0730027

(I.R.S. employer identification no.)

4832 Grand Avenue
Duluth, Minnesota

(Address of principal executive offices)

55807

(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 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 November 12, 2002.

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

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THE CHROMALINE CORPORATION
QUARTERLY REPORT ON FORM 10-QSB

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as of September 30, 2002 (unaudited) and December 31, 2001

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PART I -- FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

THE CHROMALINE CORPORATION
BALANCE SHEETS

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	SEPTEMBER 30 2002 (UNAUDITED)	DECEMBER 2001
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 436,714	\$ 543,6
Marketable securities	246,591	237,1
Trade receivables, less allowance for doubtful accounts of \$100,000	2,020,330	1,472,9
Inventories	1,661,734	1,605,6
Prepaid expenses and other assets	169,112	118,1
Income tax refund receivable		133,0
Deferred taxes	68,000	68,0
	-----	-----
Total current assets	4,602,481	4,178,6
PROPERTY, PLANT, AND EQUIPMENT, at cost:		
Land and building	1,355,588	1,355,5
Machinery and equipment	2,213,588	2,189,1
Office equipment	1,136,024	1,036,0
Vehicles	136,094	223,2
	-----	-----
	4,841,294	4,804,0
Less accumulated depreciation	3,651,808	3,501,3
	-----	-----
	1,189,486	1,302,7
PATENT, net of amortization of \$39,547 and \$32,788 respectively	69,731	76,4
NONCOMPETE AGREEMENT, net of amortization of \$15,000 and \$10,000 respectively	85,000	90,0
LICENSE AGREEMENTS, net of amortization of \$1,302	48,698	
OTHER	187,500	187,5
DEFERRED TAXES	213,000	213,0
	-----	-----
	\$ 6,395,896	\$ 6,048,4
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	\$ 391,592	\$ 297,5
Accrued compensation	224,439	143,3
Income tax payable	7,059	
Other accrued expenses	24,127	27,5
	-----	-----
Total current liabilities	647,217	468,4
CONTINGENCIES		
STOCKHOLDERS' EQUITY:		
Preferred stock, par value \$.10 per share; authorized 250,000 shares; issued none Common stock, par value \$.10 per share; authorized 4,750,000 shares; issued and outstanding 1,248,127 shares and 1,271,627	124,813	127,1
Additional paid-in capital	1,269,489	1,293,4
Retained earnings	4,364,175	4,170,2
Accumulated other comprehensive income (loss)	(9,798)	(10,8
	-----	-----

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Total stockholders' equity	5,748,679	5,580,0
	-----	-----
	\$ 6,395,896	\$ 6,048,4
	=====	=====

See notes to financial statements.

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THE CHROMALINE CORPORATION
STATEMENTS OF OPERATIONS (UNAUDITED)

	THREE MONTHS ENDED SEPTEMBER 30		N ENDE
	2002	2001	2002
SALES	\$2,970,798	\$ 2,519,461	\$ 8,917,425
COSTS AND EXPENSES:			
Cost of goods sold	1,758,869	1,505,750	5,153,867
Selling, general, and administrative	900,750	938,540	2,866,607
Research and development	194,088	198,278	560,673
	-----	-----	-----
	2,853,707	2,642,568	8,581,147
	-----	-----	-----
INCOME (LOSS) FROM OPERATIONS	117,091	(123,107)	336,278
INTEREST EXPENSE	333		503
INTEREST INCOME	9,668	11,344	28,014
	-----	-----	-----
INCOME (LOSS) BEFORE INCOME TAXES	126,426	(111,763)	363,789
FEDERAL AND STATE INCOME TAX EXPENSE (BENEFIT)	40,614	(37,700)	123,689
	-----	-----	-----
NET INCOME (LOSS)	\$ 85,812	\$ (74,063)	\$ 240,100
	=====	=====	=====
EARNINGS (LOSS) PER SHARE:			
Basic	\$ 0.07	\$ (0.06)	\$ 0.19
	=====	=====	=====
Diluted	\$ 0.07	\$ (0.06)	\$ 0.19
	=====	=====	=====
WEIGHTED AVERAGE COMMON SHARES ASSUMED OUTSTANDING:			
Basic	1,248,127	1,271,627	1,253,390
	=====	=====	=====

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Diluted	1,248,963 =====	1,271,627 =====	1,253,390 =====
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See notes to financial statements.

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THE CHROMALINE CORPORATION
STATEMENTS OF CASH FLOWS (UNAUDITED)

	NINE MONTHS ENDED SEPTEMBER 30	
	2002	2001
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	\$ 240,100	\$ (14,851)
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	244,550	295,552
Gain on disposed assets	(19,632)	
Changes in working capital components:		
Decrease (increase) in:		
Trade receivables	(547,348)	69,971
Prepaid expenses and other assets	(50,934)	(68,943)
Inventories	(56,064)	(213,330)
(Decrease) increase in:		
Accounts payable	94,036	34,754
Accrued expenses	77,720	21,649
Income taxes payable	140,089	50,805
	-----	-----
Net cash provided by operating activities	122,517	175,607
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	(98,582)	(158,695)
Payment for license agreement	(50,000)	
Net activity in marketable securities	(8,408)	444,521
Note receivable		(75,000)
	-----	-----
Net cash (used in)/provided by investing activities	(156,990)	210,826
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from revolving credit agreement	150,000	
Payments for revolving credit agreement	(150,000)	
Re-purchase of company stock	(72,492)	

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Net cash provided by financing activities	(72,492)	
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(106,965)	386,433
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	543,679	71,493
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$ 436,714	\$ 457,926
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Income taxes paid (refunded)	\$ (16,400)	\$ (59,905)
NON-CASH:		
Loan receivable converted to stock	\$	\$ 75,000

See notes to financial statements.

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THE CHROMALINE CORPORATION
NOTES TO FINANCIAL STATEMENTS
(Unaudited)

1. Notes to Financial Statements

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

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

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

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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 September 30, 2002 and December 31, 2001 are as follows:

	Sept 30, 2002	Dec 31, 2001
	-----	-----
Raw materials	\$ 620,157	\$ 638,424
Work-in-progress	282,665	236,493
Finished goods	992,960	942,301
Reduction to LIFO cost	(234,048)	(211,548)
	-----	-----
Total Inventory	\$ 1,661,734	\$1,605,670
	=====	=====

3. Stockholders' Equity

	Nine Months Ended Sept 30, 2002

Total Stockholders' Equity-December 31, 2001	\$ 5,580,040
Net income	\$240,100
Unrealized gain on available- for-sale investments	1,031

Comprehensive income	241,131
Stock repurchase	(72,492)

Total Stockholders' Equity-September 30, 2002	\$ 5,748,679
	=====

4. Net Income per Common Share

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

THE CHROMALINE CORPORATION

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

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

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

FACTORS THAT MAY AFFECT FUTURE RESULTS

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

- o The Company's belief that its bad debt allowance is adequate to cover potential credit risks--This belief may be impacted by domestic economic conditions, by economic, political, regulatory or social conditions in foreign markets, by failures in the Company's collection procedures or by financial difficulties affecting a significant number of the Company's customers.
- o The Company's belief that the quality of its receivables is high and that strong internal controls are in place to maintain proper

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collections--This belief may be impacted by domestic economic conditions, by economic, political, regulatory or social conditions in foreign markets, or by the failure of the Company to properly implement or maintain internal controls.

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

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- o The Company's plans to continue to invest in research and development efforts, expedite internal product development and invest in technological alliances, as well as the expected focus and results of such investments--These plans and expectations may be impacted by general market conditions, unanticipated changes in expenses or sales, delays in the development of new products, technological advances, the ability to find suitable and willing technology partners or other changes in competitive or market conditions.
- o The Company's efforts to grow its international business--These efforts may be impacted by economic, political and social conditions in current and anticipated foreign markets, regulatory conditions in such markets, unanticipated changes in expenses or sales, changes in competitive conditions or other barriers to entry or expansion.

CRITICAL ACCOUNTING POLICIES

The Company prepares the financial statements in conformity with accounting principles generally accepted in the United States of America.

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

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

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

RESULTS OF OPERATIONS

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

Sales. The Company experienced strong sales during the third quarter of 2002 of \$2.97 million, which were 17.9% higher than the \$2.52 million in sales during the same period in 2001. Sales were strong across most geographical markets and product lines.

Cost of Goods Sold. Cost of goods sold during the third quarter of 2002 was \$1.76 million, or 59.2% of sales, compared to \$1.51 million, or 59.8% of sales, during the same period in 2001. Quarter over quarter margins were essentially unchanged, ending the decrease the Company had experienced in this area through the first quarter of 2002.

Selling, General and Administrative Expenses. Selling, general and administrative expenses decreased to \$900,750, or 30.3% of sales, in the third quarter of 2002, from \$938,540, or 37.3% of sales, for the same period in 2001. Expenses were lower in the third quarter of 2002 due to decreased headcount, travel, legal fees and automobile expenses. These lower expenses were partially offset by higher trade show costs as the Company has increased its presence at industry events in 2002. The third quarter of 2001 included a \$15,000 increase in the Company's bad debt allowance related to an increased presence in Asia. The Company believes its bad debt allowance is adequate to cover potential credit risks.

Research and Development Expenses. Research and development expenses during the third quarter of 2002 were \$194,000, or 6.5% of sales, versus \$198,000, or 7.9% of sales, for the same period in 2001. The reduction was due to lower costs for production trials, lab supplies and consulting fees.

Interest Expense. The Company incurred minimal interest expense on a \$150,000 loan drawn from its revolving credit facility on June 20, 2002. This

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draw funded a \$125,000 royalty payment to Aicello, which was the second of two royalty payments required under the license agreement made in January 2001. This loan draw was completely repaid in July 2002.

Interest Income. Interest income for the third quarter of 2002 was \$10,000 compared to \$11,000 for the same period in 2001. Interest is earned primarily from government obligation revenue bonds of various municipalities and school districts in the State of Minnesota.

Income Taxes. Income taxes increased to \$41,000, or an effective rate of 32%, during the third quarter of 2002, versus an income tax benefit of \$38,000, or an effective rate of 34%, for the third quarter of 2001.

NINE MONTHS ENDED SEPTEMBER 30, 2002 COMPARED TO THE NINE MONTHS ENDED SEPTEMBER 30, 2001

Sales. The Company's sales during the first nine months of 2002 increased to \$8.92 million, or 10.5%, from \$8.07 million in sales during the same period in 2001. Sales were strong across most geographical markets and product lines.

Cost of Goods Sold. Cost of goods sold during the first nine months of 2002 was \$5.15 million, or 57.8% of sales, compared to \$4.56 million, or 56.5% of sales, during the same period in 2001. Changes in these costs as a percentage of sales are driven primarily by a shift in product mix.

Selling, General and Administrative Expenses. Selling, general and administrative expenses decreased to \$2.87 million, or 32.2% of sales, in the first nine months of 2002, from \$2.98 million, or 36.9% of sales, for the same period in 2001. The Company is seeking to control overhead costs in several areas, including headcount, legal fees, travel, supplies and automobile expenses. The first nine months of 2001 included a \$60,000 increase in the Company's bad debt allowance reflecting the risk associated with an increased presence in Europe and India. It also included legal fees of \$104,000 related to negotiation of the license agreement with Aicello.

Research and Development Expenses. Research and development expenses during the first nine months of 2002 were \$561,000, or 6.3% of sales, versus \$599,000, or 7.4% of sales, for the same period in 2001. The reduction was due to lower costs for production trials, lab supplies and consulting fees.

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

Interest Income. Interest income decreased to \$28,000 for the first nine months of 2002 compared to \$39,000 for the same period in 2001. The decrease was due to the utilization of invested cash resources for the repurchase of 23,500 shares of the Company's Common Stock in the first quarter of 2002.

Income Taxes. Income taxes increased to \$124,000, or an effective rate of 34%, during the first nine months of 2002 from an income tax benefit of \$9,000, or an effective rate of 38%, for the same period in 2001.

LIQUIDITY AND CAPITAL RESOURCES

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

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research and development expenditures.

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Cash and cash equivalents were \$437,000 and \$458,000 at September 30, 2002 and September 30, 2001, respectively. The Company generated \$123,000 in cash from operating activities during the nine months ended September 30, 2002 and generated \$176,000 in cash from operating activities during the same period in 2001. Cash provided by operating activities is primarily the result of adjusting net income for non-cash depreciation and certain changes in working capital requirements.

During the first nine months of 2002, trade receivables increased by \$547,000. The increase in receivables was driven primarily by substantially higher sales over previous periods, as the second and third quarters of 2002 provided record sales for the Company. The Company believes that the quality of its receivables is high and that strong internal controls are in place to maintain proper collections. Inventory levels increased \$56,000, mainly in finished goods. Prepaid expenses increased \$51,000, primarily due to a \$125,000 prepaid royalty payment to Aicello. Accounts payable increased \$94,000, reflecting timing of payments for inventory to suppliers. Accrued expenses increased \$78,000, reflecting primarily the timing of compensation payments.

During the first nine months of 2001, trade receivables decreased by \$70,000 reflecting limited sales growth and an increased effort to reduce days sales outstanding (DSO). Prepaid expenses increased \$69,000 reflecting a \$150,000 prepaid royalty to Aicello in February 2001. Inventories increased \$213,000 due to an increase in raw materials and finished goods for several new product launches. Accounts payable increased \$35,000 and accrued expenses increased \$22,000.

The Company used \$157,000 and provided \$211,000, in cash for investing activities during the nine months ended September 30, 2002 and September 30, 2001, respectively. During the first nine months of 2002, the Company purchased \$99,000 in capital equipment and business software. Also during this period, the Company purchased, for \$50,000, a license for technology applicable to its abrasive etching business. During the first nine months of 2001, the Company purchased \$159,000 in capital equipment. During this same period, the Company sold a portion of its investment holdings in general revenue obligation bonds. These proceeds were used to participate in a \$50,000 bridge loan to Apprise Technologies of Duluth, Minnesota that converted into stock and warrants on July 1, 2001. These proceeds also funded the \$150,000 prepaid royalty payment made to Aicello as part of the license agreement and funded the \$73,000 in prepaid production costs to Apprise for a radiometer project.

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

A bank line of credit exists providing for borrowings of up to \$1,250,000. Outstanding debt under this line of credit is collateralized by accounts receivable and inventory and bears interest at 2.25 percentage points over the 30-day LIBOR rate. The Company made a \$150,000 draw on this line of credit on June 20, 2002, primarily to cover a royalty payment to Aicello. The Company repaid this draw during the month of July 2002.

The Company believes that current financial resources, its line of

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

CAPITAL EXPENDITURES

Through September 30, 2002, the Company spent \$98,582 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 \$25,000 include ongoing manufacturing equipment upgrades, development equipment to modernize the capabilities and processes of the Company's research and

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development laboratory to improve measurement and quality control processes. Total 2002 commitments are expected to be less than 2001 capital expenditures and are expected to be funded with cash generated from operating activities.

INTERNATIONAL ACTIVITY

The Company markets its products to over 50 countries in North America, Europe, Latin America, Asia and other parts of the world. Foreign sales were approximately 30% of total sales for the three months ended September 30, 2002. This compares with foreign sales of 29% of total sales during the same period in 2001. Sales to foreign markets for the nine months ended September 30, 2002 and 2001 were both 32% of total sales. The fluctuation of certain foreign currencies has not significantly impacted the Company's operations because the Company's foreign sales are not concentrated in any one region of the world. The Company believes its vulnerability to uncertainties due to foreign currency fluctuations and general economic conditions in foreign countries is not significant.

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

FUTURE OUTLOOK

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

In addition to its traditional emphasis on domestic markets, the

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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.

ITEM 3. CONTROLS AND PROCEDURES

(a) Evaluation of disclosure controls and procedures. The Company's Chief Executive Officer and its Chief Financial Officer, after evaluating the effectiveness of the Company's disclosure controls and procedures (as defined in Exchange Act Rules 13a-14(c) and 15d-14(c)) on a date within 90 days before the filing date of this quarterly report, have concluded that, as of such date, the Company's disclosure controls and procedures were adequate and effective to ensure that material information relating to the Company would be made known to them by others within the Company.

(b) Changes in internal controls. There were no significant changes in the Company's internal controls or in other factors that could significantly affect the Company's internal controls subsequent to the date of their evaluation, nor were there any significant deficiencies or material weaknesses in the Company's internal controls. As a result, no corrective actions were required or undertaken.

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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 September 30, 2002:

Exhibit	Description
-----	-----

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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
99	Certification under Section 906 of the Sarbanes-Oxley Act.

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 September 30, 2002.

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

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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: November 13, 2002

By: /s/ Jeffery A. Laabs

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

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CERTIFICATIONS PURSUANT TO SECTION 302
OF THE SARBANES-OXLEY ACT OF 2002

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I, William C. Ulland, certify that:

1. I have reviewed this quarterly report on Form 10-QSB of The Chromaline Corporation;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:
 - a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
 - b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
 - c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
 - a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: November 13, 2002

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/s/ William C. Ulland

William C. Ulland
Chairman, Chief Executive Officer
and President

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CERTIFICATIONS PURSUANT TO SECTION 302
OF THE SARBANES-OXLEY ACT OF 2002

I, Jeffery A. Laabs, certify that:

1. I have reviewed this quarterly report on Form 10-QSB of The Chromaline Corporation;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:
 - a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
 - b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
 - c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
 - a) all significant deficiencies in the design or operation of internal controls which could adversely affect the

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registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: November 13, 2002

/s/ Jeffery A. Laabs

Jeffery A. Laabs
Chief Financial Officer, Treasurer
and Secretary

INDEX TO EXHIBITS

Exhibit	Description	
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3.1	Restated Articles of Incorporation of Company, as amended.....	Inco
3.2	By-Laws of the Company, as amended.....	Inco
11	Computation of Net Earnings per Common Share.....	File
99	Certification Under Section 906 of the Sarbanes-Oxley Act.....	File