

COMMON STOCK

The Chromaline Corporation common stock is traded on the Nasdaq SmallCap market under the symbol CMLH. A market in The Chromaline Corporation common stock is maintained by:

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The Chromaline Corporation
4832 Grand Avenue • Duluth, MN 55807



2001

SECOND QUARTER REPORT



THE CHROMALINE CORPORATION

July 31, 2001

To Our Stockholders,

Sales for the second quarter of 2001 were \$2,691,000, down 6% from the second quarter of 2000. The quarter showed a loss of \$29,000, or \$0.02 per diluted share compared to a profit of \$0.19 per diluted share in the second quarter of 2000.

These disappointing results reflect weakness in the screen printing industry, particularly those areas that service electronics manufacturers. We have been particularly hard hit in the United States and Asia. In Europe, where we have a new distribution arrangement, sales remain healthy. Domestic screen-print sales have been helped by the Nichols chemical line added a year ago, but these products carry lower margins than our photochemicals and the changing product mix has negatively affected margins.

In addition to Europe, a very encouraging development is our sandcarving photomask products which are selling well above last year's level and at improving margins. These sales are driven by new photomask products and the quality line of glass and crystal we added earlier this year. The outlook for this part of the company is very good and significant new products are in the pipeline.

In late June we began selling our UV Minder, a device designed to measure the ultraviolet energy used to expose our photochemicals. This is our first electronics product designed for the screen print market and initial orders have been encouraging.

I expect our screen print sales to recover with the economy and sand carving products to continue to grow in the current economy.

During the quarter we entered into an agreement with a specialty chemical company to sell some of our proprietary chemistry. We are just beginning this effort and have yet to realize any sales. We also increased our investment in Apprise Technologies by \$25,000 and conveyed our 19.5% interest in an Indian manufacturing plant to our Indian partner. After a review, we concluded that this operation had little potential to contribute significant profits and was a distraction to our main business. There was no financial impact from this transaction.

The sour economy was an unwelcome surprise, but I believe that the new products coming along are positioning us for a strong comeback. The company remains financially strong and continues with a plan to aggressively grow despite short term buffeting by the economy.

For the Board of Directors,

Bill Ulland

William C. Ulland
Chairman, President & CEO

This letter contains statements regarding future sales, potential acquisitions that involve risks and uncertainties. The company's actual results could differ materially as a result of domestic and global economic conditions, competitive market conditions, acceptance of new products, the ability to identify and make suitable acquisitions, as well as the factors described in the company's Form 10-KSB on file with the SEC.

THE CHROMALINE CORPORATION

Statements of Operations

For the Three and Six Month Periods Ending June 30, 2001 and 2000

	Three Months Ending		Six Months Ending	
	6/30/01	6/30/00	6/30/01	6/30/00
Sales	\$ 2,691,234	\$ 2,860,949	\$ 5,549,246	\$ 5,275,766
Costs, expenses, and other income	<u>2,738,324</u>	<u>2,461,298</u>	<u>5,461,434</u>	<u>4,794,381</u>
Income (loss) before income taxes	\$ (47,090)	\$ 399,651	\$ 87,812	\$ 481,385
Federal & state income tax expense (benefit)	<u>(17,900)</u>	<u>151,900</u>	<u>28,600</u>	<u>183,000</u>
Net income (loss)	<u>\$ (29,190)</u>	<u>\$ 247,751</u>	<u>\$ 59,212</u>	<u>\$ 298,385</u>
Earnings (loss) per common share - diluted	<u>\$ (.02)</u>	<u>\$.19</u>	<u>\$.05</u>	<u>\$.23</u>
Average shares outstanding - diluted	1,271,627	1,304,450	1,274,750	1,304,450

Balance Sheets

as of June 30, 2001 and December 31, 2000

Assets	6/30/01	12/31/00
Current Assets	\$ 4,287,377	\$ 4,319,167
Property, Equipment & Patents	1,372,373	1,494,034
Investment	187,500	112,500
Other Intangible	297,264	307,880
Deferred Taxes	<u>105,000</u>	<u>105,000</u>
	<u>\$ 6,249,514</u>	<u>\$ 6,338,581</u>
Liabilities and Equity		
Current Liabilities	\$ 390,695	\$ 552,644
Long Term Debt	0	0
Stockholders' Equity	<u>5,858,819</u>	<u>5,785,937</u>
	<u>\$ 6,249,514</u>	<u>\$ 6,338,581</u>

Summary of Quarterly Statements

(Thousands of Dollars)

Quarter Ended	2001			2000			1999		
	Sales	Net Income (loss)	Earnings (loss) Per Share	Sales	Net Income (loss)	Earnings (loss) Per Share	Sales	Net Income	Earnings Per Share
March 31									
June 30	\$ 2,858	\$ 88		\$ 2,414	\$ 50	\$.04	\$ 2,351	\$ 143	\$.11
September 30	2,691	(29)	\$.07	2,861	248	.19	2,678	258	.20
December 31			(0.02)	2,501	22	.02	2,574	193	.15
				2,591	(65)	(.05)	2,779	210	.16
	<u>\$ 5,549</u>	<u>\$ 59</u>		<u>\$10,36</u>	<u>\$ 255</u>	<u>\$.20</u>	<u>\$10,38</u>	<u>\$ 804</u>	<u>\$.62</u>

Unaudited interim financial information

Sales restated to reflect EITF 00-10 ruling on freight cost recognition.