
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-QSB

QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended May 31, 2005

TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission file number **0-17741**

EPOLIN, INC.

(Exact name of Small Business Issuer as Specified in its Charter)

New Jersey
(State or Other Jurisdiction
of Incorporation or
Organization)

22-2547226
(I.R.S. Employer
Identification
Number)

358-364 Adams Street
Newark, New Jersey 07105
(Address of Principal Executive Offices)

(973) 465-9495
(Issuer's Telephone Number, Including Area Code)

Check whether the Issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 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 practicable date:

Common, no par value per share: 11,815,355
outstanding as of June 15, 2005

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements.

See the Consolidated Financial Statements annexed to this report.

Item 2. Management's Discussion and Analysis or Plan of Operation.

The following discussion should be read in conjunction with the Financial Statements included in this report and is qualified in its entirety by the foregoing.

Forward-Looking Statements

This report contains certain forward-looking statements and information relating to the Company that are based on the beliefs and assumptions made by the Company's management as well as information currently available to the management. When used in this document, the words "anticipate", "believe", "estimate", and "expect" and similar expressions, are intended to identify forward-looking statements. Such statements reflect the current views of the Company with respect to future events and are subject to certain risks, uncertainties and assumptions. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those described herein as anticipated, believed, estimated or expected. Certain of these risks and uncertainties are discussed in this report under the caption "Uncertainties and Risk Factors" in Part I, Item 1 "Description of Business" of the Company's Form 10-KSB for the year ended February 28, 2005. The Company does not intend to update these forward-looking statements.

Executive Overview

Epolin, Inc. (the "Company") is a specialized chemical company primarily engaged in the manufacturing, marketing, research and development of dyes and dye formulations. The Company's business is heavily weighted towards the development, manufacture and sale of near infrared dyes. Applications for these dyes cover several markets that include laser protection, welding, sunglasses, optical filters, glazing and imaging and security inks and tagants. The Company also manufactures specialty chemicals for certain United States chemical manufacturers.

The Company has succeeded in growing over the last decade based on the development, application and manufacture of near infrared dyes. Although the Company does not rely upon patents for protection of its dye business, no competitors, to the Company's knowledge, actively market the large variety and volume of infrared dyes as sold by the Company. Furthermore, the Company has embarked on an aggressive campaign to make its dyes easier to use. In this regard, the Company offers technical service support for extrusion and injection molding of Company dyes with a variety of resin substrates. The Company's dyes can now be uniquely formulated to each customer's specifications and manufactured in the Company's own facility. In addition, the Company holds a broad range of dyes in inventory for immediate sale.

The Company sells its products to manufacturers of plastics/resins, credit cards, electronics, glass and other basic materials. The Company's customers are located in all regions of the world, although a material portion of the Company's business is dependent on certain domestic customers, the loss of which could have a material effect on operations. As the service economy continues to dwarf the manufacturing sector in the United States, the Company anticipates that its products will be increasingly used by manufacturers located abroad. During the three months ended May 31, 2005, approximately 44.1% of sales were to four customers. Two of these customers, located in the eastern United States, accounted for 28.3% of sales. During the three

months ended May 31, 2004, approximately 51.6% of sales were to four customers. Two of these customers, located in the eastern United States, accounted for 39.0% of sales. The loss of one or more key customers could have a material adverse effect on the Company.

Results of Operations

The following table sets forth operations data expressed as a percentage of sales.

	<u>Three Months Ended</u>	
	May 31, <u>2005</u>	May 31, <u>2004</u>
Sales	100%	100%
Cost of sales	<u>43.4</u>	<u>44.0</u>
Gross Profit	56.6	56.0
Selling, general and administrative	<u>31.1</u>	<u>39.2</u>
Operating Income	25.5	16.8
Income before taxes	26.4	19.1
Net income (after taxes)	17.1	10.5

Sales

Sales increased to \$806,000 for the three months ended May 31, 2005 from \$464,000 for the three months ended May 31, 2004, an increase of \$342,000 or 73.7%. The Company experienced increased orders from many of its regular customers of its traditional products during the first quarter of the current fiscal year compared to the first quarter of fiscal 2005 in which the Company experienced reduced orders from many of such customers. In addition, the Company has recently begun providing greater technical service to customers which has allowed the Company to sell many of its traditional dye products to customers who may not have known how to best use the Company's products in the past. These efforts have resulted in increased sales of the Company's dye products which was demonstrated with the significant increase in sales for the three months ended May 31, 2005. The Company also has increased its sales overseas, especially in Japan, Korea and Taiwan for its products, and the Company has experienced increased orders for its newer security inks and coatings products.

While management believes that the Company has remained strong in the sale of dyes in its traditional markets of welding and eye protection, sales did remain relatively stagnant from fiscal 2002 through fiscal 2005. In order to increase the level of sales of its traditional dyes products, the Company has begun to place greater emphasis on technical service as mentioned above which has resulted in sales to customers who have not used the Company's products before as well as new uses of such dye products by regular customers. The Company also has increased its sales in dyes for the newer security inks products which is an area the Company expects to achieve strong growth. All of these efforts resulted in the strong increase in sales for the quarter ended May 31, 2005 as described above compared to the quarter ended May 31, 2004.

Gross Profit

Gross profit, defined as sales less cost of sales, was \$457,000 or 56.6% of sales for the three months

ended May 31, 2005 compared to \$260,000 or 56.0% of sales for the three months ended May 31, 2004. In terms of absolute dollars, Gross profit increased \$197,000 due primarily to higher sales and slightly higher margins.

Cost of sales was \$350,000 for the three months ended May 31, 2005 which represented 43.4% of sales compared to \$204,000 for the three months ended May 31, 2004 which represented 44.0% of sales. The small decrease in operating expenses as a percentage of sales reflects the Company's operating leverage on increased sales. The increase in absolute dollars of operating expenses during the quarter ended May 31, 2005 was due primarily to the increased variable costs associated with the higher revenue level achieved.

Selling, General and Administrative Expenses

Selling, general and administrative expenses increased to \$251,000, or 31.1% of sales, for the three months ended May 31, 2005 from \$182,000, or 39.2% of sales, for the three months ended May 31, 2004, an increase of \$69,000. As a percentage of sales, however, selling, general and administrative expenses decreased 8.1% for the three months ended May 31, 2005 compared to the three months ended May 31, 2004.

Such increase in absolute dollars in selling, general and administrative expenses for the quarter ended May 31, 2005 compared to the comparable period of the prior year was primarily due to increases in officer salaries and employee benefits, together with increases in commission expenses (resulting from increased sales), offset by decreases in professional fees, advertising and marketing, and officer life insurance costs.

Operating Income

Operating income for the three months ended May 31, 2005 increased to \$206,000, or 25.5% of sales, from \$78,000, or 16.8% of sales, for the comparable period of fiscal 2005, an increase of \$128,000 or 8.7%. This change was primarily due to a substantial increase in sales for the period, together with decreases achieved, in terms of a percentage of sales, in operating expenses and selling, general and administrative expenses as described above.

Other Income

Total other income for the three months ended May 31, 2005 was \$7,000 as compared to \$10,000 for the three months ended May 31, 2004. The Company realized \$3,000 in rental income for the first quarter of fiscal 2006 compared to rental income of \$9,000 for the first quarter of fiscal 2005. Effective November 1, 2002, the Company began to sublease approximately 2,500 square feet of its office space to a non-related party to operate an optics and security inks laboratory at an annual rent of \$36,000. During the quarter ended May 31, 2005, such tenant was behind in its rental payments which late payments were made subsequent to May 31, 2005. The Company's interest income increased to \$4,000 for the three months ended May 31, 2005 from \$1,000 for the three months ended May 31, 2004.

Net Income

During the three months ended May 31, 2005, the Company reported income before taxes of \$213,000 as compared to income before taxes of \$88,000 for the three months ended May 31, 2004. Income taxes were \$75,000 for the three months ended May 31, 2005 compared to \$40,000 for the three months ended May 31, 2004. The increase in income taxes was generally attributed to ordinary changes from period to period in sales and expenses. Net income after taxes was \$138,000 or \$0.01 per share for the three months ended May 31, 2005 as compared to net income after taxes of \$49,000 or \$0.00 per share for the three months ended May 31, 2004. The increase in net income after taxes for the quarter ended May 31, 2005 compared to the prior year was primarily due to increases in sales together with decreases achieved, in terms of a percentage of sales, in operating expenses and selling, general and administrative expenses.

Net income in the future will be dependent upon our ability to increase revenues faster than we increase our selling, general and administrative expenses, research and development expenses and other expenses. Although there were modest increases in sales in the entire 2005 fiscal year compared to the entire 2004 fiscal year, we did attain a dramatic increase in sales for the first quarter of fiscal 2006. We also did incur in absolute dollars greater selling, general and administrative expenses for the first quarter of fiscal 2006 compared to the comparable period of last year. Certain of these expenses are due to a greater emphasis being placed on marketing our traditional and new product lines and hiring of additional employees. We are encouraged with the increases in sales achieved in the first quarter of fiscal 2006 which we believe is a direct result of these efforts.

Operations Outlook

We are currently going through a period of reassessing our direction in order to increase value for our shareholders. Our business, though reasonably healthy, has not recently grown to the degree management anticipated. For example, the sales level of \$2,880,000 reached during fiscal 2005 was an all time high for the Company. Yet, this was not significantly more than in 2004 (\$2,734,000), 2003 (\$2,690,000) or 2002 (\$2,550,000). The plateau of sales over the last four years was in contrast to the greater sales growth the Company experienced prior to 2002 and beginning in 1991. Based upon these observations, we tried to learn what could be done to stimulate growth and recapture the promise of a true growth company. Our first task was to draw up a business plan. We believe this highlighted our one major weakness and that was in sales and marketing. For years we felt it to be unnecessary to go out and reach our customers. We believed that our web site was sufficiently explicit to attract anyone interested in near infrared light management to come to us because we were the “only game in town”. We now realize that the customer has alternatives which do not include the use of Epolin dyes. We believe the business plan made clear the necessity of hiring a Sales/Marketing executive (which has been accomplished) along with back up technical service help (which has also been accomplished). In order to cover the cost of these additional personnel and place a greater emphasis on company growth, we suspended in fiscal 2005 the cash dividends program which we had been in place during fiscal 2002, 2003 and 2004. We believed that it was in the long term best interest of the shareholders for us to reinvest profits for future growth. However, with the results achieved in the first three months of fiscal 2006 and due to our current cash position, we will be declaring and paying a \$0.02 cash dividend in the current fiscal quarter.

Management has recognized that the Company’s traditional markets - serving welding and eye protection plastics manufacturers - have gone through certain changes over the last few years in that certain customers have consolidated and/or moved manufacturing operations to low-cost countries, usually in the Far East. In some of these countries, eye protection may not be as highly valued by the citizenry. Management expects that this market will remain important as a continuing source of revenue. The Company also now offers fully formulated dye packages which can be used by the lens manufacturer simply by adding the package to polycarbonate and injection molding the final product. This has allowed the Company to maintain a strong position in this market. Greater emphasis has recently been placed on sales, marketing and technical support in order to grow the Company’s business. The new products that are now the firm underpinnings for future growth are based upon security inks, new visible and infrared dyes and the forward integration of the Company’s dyes into formulated pellets. For the three months ended May 31, 2005, sales in these new product areas increased approximately \$40,000 from the comparable period of the prior year. Nevertheless, due the increased sales in the Company’s traditional product line which was experienced in the three months ended May 31, 2005, sales in these new product areas represented approximately 23% of all Company sales compared to the three months ended May 31, 2004 for which sales in these new product areas represented approximately 33% of all Company sales. As mentioned above, the Company did experience reduced sales in its traditional products during the quarter ended May 31, 2004.

Another factor that was considered in the business plan was management succession. Murray S. Cohen, the Company’s Chairman of the Board and Chief Executive Officer, has announced his intention to

step down as Chief Executive Officer at an undetermined future date, while continuing to remain as Chairman of the Board and Chief Scientist for the Company. With the hiring of a Sales/Marketing executive, such will add to our pool of personnel who can be considered at a later date for the position of CEO.

Liquidity and Capital Resources

The Company's primary source of funds is cash flow from operations in the normal course of selling products. On May 31, 2005, the Company had working capital (consisting current assets less current liabilities) of \$2,412,000, a debt to equity ratio of 0.14 to 1, and stockholders' equity of \$3,237,000, compared to working capital of \$1,949,000, a debt to equity ratio of 0.18 to 1, and stockholders' equity of \$2,668,000 on May 31, 2004. On May 31, 2005, the Company had \$1,370,000 in cash and cash equivalents, total assets of \$3,696,000 and total liabilities of \$459,000, compared to \$817,000 in cash and cash equivalents, total assets of \$3,151,000 and total liabilities of \$484,000 on May 31, 2004.

Net cash provided by operating activities for the three months ended May 31, 2005 was \$224,000 compared to \$280,000 for the three months ended May 31, 2004. Net cash used by investing activities for the three months ended May 31, 2005 was \$86,000 compared to \$11,000 for the three months ended May 31, 2004 which change was primarily due to an increase in equipment purchases.

The Company anticipates, based on currently proposed plans and assumptions relating to its operations, that its current cash and cash equivalents together with projected cash flows from operations and projected revenues will be sufficient to satisfy its contemplated cash requirements for more than the next 12 months. The Company's contemplated cash requirements for fiscal 2006 and beyond will depend primarily upon level of sales of its products, inventory levels, product development, sales and marketing expenditures and capital expenditures. While Management believes the Company has remained strong in the sale of dyes in its traditional markets of welding and eye protection, such sales did not increase in volume in the past few complete fiscal years. As a result, we have begun to place a greater emphasis on sales, marketing and technical support in order to grow our dye business and our newer business in security inks and coatings which we expect to contribute meaningful growth to the Company.

Inflation has not significantly impacted the Company's operations.

Significant Accounting Policies

Our discussion and analysis of the Company's financial condition and results of operations are based upon our consolidated financial statements which have been prepared in conformity with U.S. generally accepted accounting principles. Our significant accounting policies are described in Note B to the consolidated financial statements included elsewhere herein. The application of our critical accounting policies is particularly important to the portrayal of our financial position and results of operations. These critical accounting policies require us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. We believe the following critical accounting policies reflect the more significant judgments and estimates used in the preparation of the consolidated financial statements.

Inventories – Our inventories consist of raw materials, work in process, finished goods and supplies which we value at the lower of cost or market under the first-in, first-out method.

Plant, Property and Equipment – Our plant, property and equipment are stated at cost. We compute provisions for depreciation on the straight-line methods, based upon the estimated useful lives of the various assets. We also capitalize the costs of major renewals and betterments. Repairs and maintenance are charged to operations as incurred. Upon disposition, the cost and related accumulated depreciation are removed and any related gain or loss is reflected in earnings.

Income taxes - We account for income taxes under Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes", in which the asset and liability method is used in accounting for income taxes. We recognize deferred taxes for temporary differences between the basis of assets and liabilities for financial statement and for income tax purposes. Temporary differences relate primarily to different accounting methods used for depreciation and amortization of property and equipment and deferred compensation.

Revenue Recognition - We recognize revenue consistent with the provisions of SEC Staff Accounting Bulletin No. 104, "Revenue Recognition", which sets forth guidelines in the timing of revenue recognition based upon factors such as passage of title, payments and customer acceptance. Any amounts received prior to satisfying our revenue recognition criteria will be recorded as deferred revenue in the accompanying balance sheet. We recognize revenue from product sales when there is persuasive evidence that an arrangement exists, when title has passed, the price is fixed or determinable, and we are reasonably assured of collecting the resulting receivable. Our policy is to replace certain products that do not conform to customer specifications, however replacements are made at our discretion subject to in house product lab analysis. There are no terms or conditions set forth within our sales contracts that provide for product replacements. We expense replacement costs as incurred.

Stock-based Compensation - As permitted by SFAS No. 123 "Accounting for Stock-Based Compensation," we continue to apply intrinsic value accounting for our stock option plans. Compensation cost for stock options, if any, is measured as the excess of the quoted market price of the stock at the date of grant over the amount an employee must pay to acquire the stock. We have adopted disclosure-only provisions of SFAS No. 123 and SFAS No. 148, "Accounting for Stock-Based Compensation - Transition and Disclosure - an Amendment of FASB Statement No. 123."

Other Information

In August 2001, the Board of Directors of the Company authorized a 500,000 share stock repurchase program. Pursuant to the repurchase program, the Company may purchase up to 500,000 shares of its common stock in the open market or in privately negotiated transactions from time to time, based on market prices. The Company indicated that the timing of the buyback of the Company's shares will be dictated by overall financial and market conditions and other corporate considerations. The repurchase program may be suspended without further notice. During the three months ended May 31, 2005, no repurchases of shares were made by the Company. During the fiscal year ended February 28, 2005, a total of 50,000 were repurchased at a cumulative cost of \$29,750. During the fiscal year ended February 29, 2004, a total of 184,000 shares were repurchased at a cumulative cost of \$103,405. During the fiscal year ended February 28, 2003, a total of 32,500 shares were repurchased at a cumulative cost of \$18,624 while during the fiscal year ended February 28, 2002, a total of 30,000 shares were repurchased at a cumulative cost of \$14,837.

As mentioned above, the Company did not pay any cash dividends during the fiscal year ended February 28, 2005 but will be declaring and paying a \$0.02 cash dividend in the current fiscal quarter. During fiscal 2004, the Company paid two cash dividends, the first being \$.02 per share in August 2003 and the second being \$.02 per shares in February 2004. During the fiscal year ended February 28, 2003, the Company also paid two cash dividends, the first being \$.04 per share in July 2002 and the second being \$.03 per share in January 2003. Prior thereto, and during the fiscal year ended February 28, 2002, the Company also paid two cash dividends, the first being \$.03 per share in June 2001 (which represented the first time that a cash dividend was paid by the Company) and the second being \$.04 per share in February 2002.

Off-Balance Sheet Arrangements

The Company has no off-balance sheet arrangements as defined in Item 303(c) of Regulation S-B.

Item 3. Controls and Procedures.

The Company's Chief Executive Officer and Principal Financial Officer have reviewed the Company's disclosure controls and procedures as of the end of the period covered by this report. Based upon this review, such officers believe that the Company's disclosure controls and procedures are effective in timely alerting them to material information required to be included in this report. There have been no significant changes in internal control over financial reporting that occurred during the fiscal quarter covered by this report that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings.

There are no material pending legal proceedings to which the Company is a party or to which any of its property is subject.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

None.

Item 3. Defaults Upon Senior Securities.

None.

Item 4. Submission of Matters to a Vote of Security-Holders.

None.

Item 5. Other Information.

None.

Item 6. Exhibits.

- 31.1 Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (Rules 13a-14 and 15d-14 of the Exchange Act)
- 31.2 Certification of Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (Rules 13a-14 and 15d-14 of the Exchange Act)
- 32.1 Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. 1350)

SIGNATURES

In accordance with the requirements of the Exchange Act, the Registrant caused this Report to be signed on its behalf by the undersigned thereunto duly authorized.

EPOLIN, INC.
(Registrant)

Dated: July 5, 2005

By: /s/ Murray S. Cohen
Murray S. Cohen,
Chairman of the Board
and Chief Executive Officer

Dated: July 5, 2005

By: /s/ James Ivchenko
James Ivchenko,
President (Principal Financial Officer)

EPOLIN, INC. AND SUBSIDIARY
FINANCIAL STATEMENTS
THREE MONTHS ENDED MAY 31, 2005 AND 2004

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders
EPOLIN INC. AND SUBSIDIARY
Newark, NJ

We have reviewed the accompanying Consolidated Balance Sheets of Epolin Inc. and Subsidiary as of May 31, 2005 and 2004 and the related Consolidated Statements of Income, Stockholders' Equity and Cash Flows for the three-month periods then ended. These interim financial statements are the responsibility of the Company's management.

We conducted our review in accordance with the standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the Public Company Accounting Oversight Board, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the accompanying interim financial statements for them to be in conformity with U.S. generally accepted accounting principles.

Weismann Associates LLC
Weismann Associates LLC
Livingston, NJ 07039

June 16, 2005

EPOLIN, INC. AND SUBSIDIARY
CONSOLIDATED BALANCE SHEETS

ASSETS

	May 31,	
	2005	2004
Current assets:		
Cash and cash equivalents	\$ 1,370,083	816,692
Accounts receivable	449,787	448,406
Inventories	716,238	817,965
Prepaid expenses	35,042	41,291
Prepaid taxes	-	36,590
Deferred tax assets-current portion	5,891	1,376
Total current assets	2,577,041	2,162,320
Plant, property and equipment - at cost:		
Land	81,000	81,000
Building and improvements	642,838	520,489
Laboratory equipment	194,135	193,335
Office equipment	102,837	72,915
Leasehold improvements	449,190	449,190
Total	1,470,000	1,316,929
Less: Accumulated depreciation and amortization	756,179	724,100
Net plant, property and equipment	713,821	592,829
Other assets:		
Deferred tax assets-non current portion	191,076	229,065
Cash value - life insurance policy	214,050	166,772
Total other assets	405,126	395,837
Total	\$ 3,695,988	3,150,986

The accompanying notes are an integral part of these statements.

EPOLIN, INC. AND SUBSIDIARY

CONSOLIDATED BALANCE SHEETS (CONTINUED)

LIABILITIES AND STOCKHOLDERS' EQUITY

	<u>May 31,</u>	
	<u>2005</u>	<u>2004</u>
Current liabilities:		
Accounts payable	\$ 15,307	6,141
Accrued expenses	73,910	199,430
Taxes payable:		
Payroll	2,322	1,719
Income	<u>73,831</u>	<u>6,489</u>
Total current liabilities	<u>165,370</u>	<u>213,779</u>
Other liabilities - Deferred compensation	<u>294,109</u>	<u>270,030</u>
Total liabilities	<u>459,479</u>	<u>483,809</u>
Commitments and Contingencies		
Stockholders' equity:		
Preferred stock, \$15.513 par value; 940,000 shares authorized; none issued		
Preferred stock, series A convertible non-cumulative, \$2.50 par value; redemption price and liquidation preference; 60,000 shares authorized; 5,478 shares issued and redeemed		
Common stock, no par value; 20,000,000 shares authorized; 12,729,000 and 12,704,000 shares issued, 11,815,355 and 11,840,355 shares outstanding at 2005 and 2004, respectively	2,340,183	2,333,933
Paid-in capital	6,486	6,486
Retained earnings	<u>1,211,772</u>	<u>618,940</u>
Total	3,558,441	2,959,359
Less: Treasury stock-at cost	<u>321,932</u>	<u>292,182</u>
Total stockholders' equity	<u>3,236,509</u>	<u>2,667,177</u>
Total	<u>\$ 3,695,988</u>	<u>3,150,986</u>

The accompanying notes are an integral part of these statements.

EPOLIN, INC. AND SUBSIDIARY

**CONSOLIDATED STATEMENTS OF INCOME
THREE MONTHS ENDED MAY 31, 2005 AND 2004**

	<u>2005</u>	<u>2004</u>
Sales	\$ <u>806,299</u>	<u>463,723</u>
Cost of sales and expenses:		
Cost of sales	349,551	204,111
Selling, general and administrative	<u>251,057</u>	<u>181,550</u>
Total	<u>600,608</u>	<u>385,661</u>
Operating income	<u>205,691</u>	<u>78,062</u>
Other income:		
Rental income	3,000	9,000
Interest	<u>4,069</u>	<u>1,284</u>
Total other income	<u>7,069</u>	<u>10,284</u>
Income before taxes	212,760	88,346
Income taxes	<u>74,608</u>	<u>39,526</u>
Net income	<u>\$ 138,152</u>	<u>48,820</u>
Per share data:		
Basic earnings per common share	<u>\$ 0.01</u>	<u>-</u>
Fully diluted earnings per common share	<u>\$ 0.01</u>	<u>-</u>
Weighted average number of common shares outstanding	<u>11,815,355</u>	<u>11,840,355</u>

The accompanying notes are an integral part of these statements.

EPOLIN, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
THREE MONTHS ENDED MAY 31, 2005 AND 2004

	<u>Number of Outstanding Shares</u>	<u>Common Stock</u>	<u>Additional Paid-in- Capital</u>	<u>Retained Earnings</u>	<u>Treasury Shares</u>	<u>Treasury Costs</u>	<u>Stockholders' Equity</u>
Balance - March 1, 2004	12,704,000	\$ 2,333,933	6,486	570,120	863,645	(292,182)	2,618,357
Net income	-	-	-	48,820	-	-	48,820
Balance - May 31, 2004	<u>12,704,000</u>	<u>\$ 2,333,933</u>	<u>6,486</u>	<u>618,940</u>	<u>863,645</u>	<u>(292,182)</u>	<u>2,667,177</u>
Balance - March 1, 2005	12,729,000	\$ 2,340,183	6,486	1,073,620	913,645	(321,932)	3,098,357
Net income	-	-	-	138,152	-	-	138,152
Balance - May 31, 2005	<u>12,729,000</u>	<u>\$ 2,340,183</u>	<u>6,486</u>	<u>1,211,772</u>	<u>913,645</u>	<u>(321,932)</u>	<u>3,236,509</u>

The accompanying notes are an integral part of these statements.

EPOLIN, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
THREE MONTHS ENDED MAY 31, 2005 AND 2004

	<u>2005</u>	<u>2004</u>
Cash flows from operating activities:		
Net income	\$ 138,152	48,820
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	8,992	8,019
Deferred tax expense	1,406	2,686
Obligation under deferred compensation agreement	6,019	6,019
(Increase) decrease in:		
Accounts receivable	103,224	195,175
Inventories	34,178	(60,198)
Prepaid expenses	14,832	50,154
Prepaid taxes	600	-
Increase (decrease) in:		
Accounts payable	15,307	4,882
Accrued expenses	(169,504)	21,340
Taxes payable	<u>70,561</u>	<u>2,781</u>
Net cash provided by operating activities	<u>223,767</u>	<u>279,678</u>
Cash flows from investing activities:		
Increase in cash value - life insurance policy	(7,880)	-
Payments for equipment	<u>(78,470)</u>	<u>(10,916)</u>
Net cash used by investing activities	<u>(86,350)</u>	<u>(10,916)</u>
Increase in cash	137,417	268,762
Cash and cash equivalents:		
Beginning	<u>1,232,666</u>	<u>547,930</u>
Ending	<u>\$ 1,370,083</u>	<u>816,692</u>
Supplemental information:		
Income taxes paid	<u>\$ 2,427</u>	<u>70,600</u>

The accompanying notes are an integral part of these statements.

EPOLIN, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MAY 31, 2005 AND 2004

Note A – Organization:

The Company is engaged in the development, production and sale of near infrared dyes to the optical industry for laser protection and welding applications and other dyes and specialty chemical products that serve as intermediates and additives used in the adhesive, plastic, aerospace, credit card security and protective documents industries to customers located in the United States and throughout the world.

The Company's wholly owned Subsidiary, Epolin Holding, Corp., was incorporated in New Jersey as a real estate holding company whose assets consist of land and a building. On January 29, 1998, the Company acquired 100% of the stock in Epolin Holding Corporation. Prior to acquisition, two officers/stockholders of the Company controlled it.

Note B – Summary of Significant Accounting Policies:

Cash and Cash Equivalents - Includes cash in bank and money market accounts for purposes of preparing the Statement of Cash Flows.

Concentrations of Credit Risks - The Company and its Subsidiary had cash deposits in a financial institution and brokerage house in excess of the amount insured by agencies of the federal government in amounts of \$1,003,000 and \$738,200 at May 31, 2005 and 2004, respectively. In evaluating this credit risk, the Company periodically evaluates the stability of the financial institution and brokerage house.

Inventories - Consists of raw materials, work in process, finished goods and supplies valued at the lower of cost or market under the first-in, first-out method.

Fair Value of Financial Instruments – The carrying amount of all reported assets and liabilities, which represent financial instruments, approximate the fair values of such amounts due to the nature of their relatively short maturity.

Source of Raw Materials – The Company purchases chemicals from several large chemical manufacturers, further processing them into its saleable products. Although the Company limits itself to a relatively small number of suppliers, it is not restricted to such suppliers, and availability of such raw materials is widespread.

EPOLIN, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MAY 31, 2005

Note B - Summary of Significant Accounting Policies (continued):

Principles of Consolidation - The accompanying Consolidated Financial Statements include the accounts of the Company and Subsidiary. Intercompany transactions and balances have been eliminated in consolidation. Condensed consolidating financial statements for the three months ended May 31, 2005 are:

CONDENSED CONSOLIDATING BALANCE SHEET

	<u>Epolin</u>	<u>Epolin Holding</u>	<u>Eliminations</u>	<u>Consolidated</u>
Current assets	\$ 2,381,906	195,135	-	2,577,041
Non-current assets	1,312,382	625,818	(819,253)	1,118,947
Total	<u>\$ 3,694,288</u>	<u>820,953</u>	<u>(819,253)</u>	<u>3,695,988</u>
Total liabilities	<u>457,779</u>	<u>166,720</u>	<u>(165,020)</u>	<u>459,479</u>
Stockholders' equity:				
Common stock	2,340,183	-	-	2,340,183
Additional paid-in capital	6,486	-	-	6,486
Retained earnings	1,211,772	654,233	(654,233)	1,211,772
Treasury stock	<u>(321,932)</u>	<u>-</u>	<u>-</u>	<u>(321,932)</u>
Total stockholders' equity	<u>3,236,509</u>	<u>654,233</u>	<u>(654,233)</u>	<u>3,236,509</u>
Total	<u>\$ 3,694,288</u>	<u>820,953</u>	<u>(819,253)</u>	<u>3,695,988</u>

CONDENSED CONSOLIDATING STATEMENT OF INCOME

	<u>Epolin</u>	<u>Epolin Holding</u>	<u>Eliminations</u>	<u>Consolidated</u>
Sales	\$ 806,299	-	-	806,299
Other revenue	-	27,435	(24,435)	3,000
Total	<u>806,299</u>	<u>27,435</u>	<u>(24,435)</u>	<u>809,299</u>
Cost of sales	349,551	-	-	349,551
Selling, general and administrative	<u>270,700</u>	<u>4,792</u>	<u>(24,435)</u>	<u>251,057</u>
Total	620,251	4,792	(24,435)	600,608
Operating income	186,048	22,643	-	208,691
Other income - interest	<u>3,568</u>	<u>501</u>	<u>-</u>	<u>4,069</u>
Income before taxes	189,616	23,144	-	212,760
Income taxes	<u>72,307</u>	<u>2,301</u>	<u>-</u>	<u>74,608</u>
Net income	<u>\$ 117,309</u>	<u>20,843</u>	<u>-</u>	<u>138,152</u>

EPOLIN, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MAY 31, 2005 AND 2004

Note B – Summary of Significant Accounting Policies (continued):

Plant, Property and Equipment - Stated at cost. Provisions for depreciation are computed on the straight-line methods, based upon the estimated useful lives of the various assets.

A summary of the major categories of the Company's plant property and equipment are as follows:

Building and improvements	Straight Line 39 Years
Machinery and equipment	Straight Line 5 – 7 Years
Furniture and Fixtures	Straight Line 7 Years
Leasehold Improvements	Straight Line 10 – 39 Years

The costs of major renewals and betterments are capitalized. Repairs and maintenance are charged to operations as incurred. Upon disposition, the cost and related accumulated depreciation are removed and any related gain or loss is reflected in earnings.

Depreciation and amortization expense totaled \$8,992 and \$8,019 for the three months ended May 31, 2005 and 2004, respectively.

Income taxes – The Company accounts for income taxes under Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes", wherein the asset and liability method is used in accounting for income taxes. Deferred taxes are recognized for temporary differences between the basis of assets and liabilities for financial statement and for income tax purposes. Temporary differences relate primarily to different accounting methods used for depreciation and amortization of property and equipment and deferred compensation.

Use of Estimates – The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the amounts of sales and expenses during the reporting period. Actual results could differ from those estimates.

EPOLIN, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MAY 31, 2005 AND 2004

Note B – Summary of Significant Accounting Policies (continued):

Revenue Recognition – The Company recognizes revenue consistent with the provisions of SEC Staff Accounting Bulletin No. 104, “Revenue Recognition”, which sets forth guidelines in the timing of revenue recognition based upon factors such as passage of title, payments and customer acceptance. Any amounts received prior to satisfying our revenue recognition criteria will be recorded as deferred revenue in the accompanying balance sheet. The Company recognizes revenue from product sales when there is persuasive evidence that an arrangement exists, when title has passed, the price is fixed or determinable, and the Company is reasonably assured of collecting the resulting receivable. The Company’s policy is to replace certain products that do not conform to customer specifications; however, replacements are made at the discretion of the Company subject to in house product lab analysis. There are no terms or conditions set forth within the Company’s sales contracts that provide for product replacements. Replacement costs are expensed as incurred.

Regulations – The Company expended approximately \$7,228 to maintain compliance with certain Federal and State and City government regulations relative to the production of near infrared dyes and specialty chemicals.

Net Income Per Share - Basic net income per share is calculated on the basis of the weighted average number of shares outstanding during the period, excluding dilution. Diluted net income per share is computed on the basis of the weighted average number of shares plus potentially dilutive common shares arising from the assumed exercise of stock options.

Advertising Costs – Advertising costs, included in operating expenses, are expensed as incurred. Advertising expenses amounted to \$5,718 and \$13,490 for the three months ended May 31, 2005 and 2004, respectively.

**EPOLIN, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MAY 31, 2005 AND 2004**

Note B – Summary of Significant Accounting Policies (continued):

Stock-based Compensation – As permitted by SFAS No. 123 "Accounting for Stock-Based Compensation," The Company continues to apply intrinsic value accounting for its stock option plans. Compensation cost for stock options, if any, is measured as the excess of the quoted market price of the stock at the date of grant over the amount an employee must pay to acquire the stock. The Company has adopted disclosure-only provisions of SFAS No. 123 and SFAS No. 148, "Accounting for Stock-Based Compensation – Transition and Disclosure - an Amendment of FASB Statement No. 123."

Deferred charges for options granted to non-employees are determined in accordance with FAS No. 123 and EITF 96-18 as the fair value of the consideration or the fair value of the equity instruments issued, whichever is more reliably measured.

The weighted average Black-Scholes value of options granted under the stock plans during the three months ended May 31, 2005 and 2004 was \$.10 and \$.11, respectively. The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions used for grants:

Three Months Ended May 31,	<u>2005</u>	<u>2004</u>
Weighted average expected life in years	5	5
Dividends per share	0.04	0.03
Volatility	6.0%	6.0%
Risk-free interest rate	3.9%	4.1%

EPOLIN, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MAY 31, 2005 AND 2004

Note B – Summary of Significant Accounting Policies (continued)

Stock-based Compensation – The Company’s pro forma net earnings and pro forma earnings per share based upon the fair value at the grant dates for awards under Epolin’s plans are disclosed below.

	<u>Three Months Ended May 31,</u>	
	<u>2005</u>	<u>2004</u>
Net earnings as reported	\$ 138,152	48,820
Deduct total additional stock-based employee compensation cost, net of tax that would have been included in net earnings under fair value method	<u>32,300</u>	<u>34,050</u>
Proforma net earnings	<u>\$ 105,852</u>	<u>14,770</u>
Basic earnings per share:		
As reported	<u>\$ 0.01</u>	<u>0.00</u>
Proforma	<u>\$ 0.01</u>	<u>0.00</u>
Average common shares outstanding	11,815,355	11,840,355
Diluted earnings per share:		
As reported	<u>\$ 0.01</u>	<u>0.00</u>
Proforma	<u>\$ 0.01</u>	<u>0.00</u>
Total diluted common shares outstanding	<u>11,983,455</u>	<u>12,028,051</u>

Note C - Inventories:

	<u>May 31,</u>	
	<u>2005</u>	<u>2004</u>
Raw materials and supplies	\$ 66,032	42,669
Work in process	240,354	277,634
Finished goods	<u>409,852</u>	<u>497,662</u>
Total	<u>\$ 716,238</u>	<u>817,965</u>

EPOLIN, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MAY 31, 2005 AND 2004

Note D – Income Taxes:

1. Federal and State deferred tax assets include:

	<u>2005</u>	<u>2004</u>
Temporary differences:		
Accelerated amortization	\$70,908	86,346
Deferred compensation	<u>126,059</u>	<u>144,095</u>
Total	196,967	230,441
Current portion	<u>5,891</u>	<u>1,376</u>
Non-current portion	<u>\$191,076</u>	<u>229,065</u>

2. Income tax expense:

	<u>2005</u>	<u>2004</u>
Current:		
Federal	\$58,500	28,500
State	<u>14,702</u>	<u>8,340</u>
Total current	<u>73,202</u>	<u>36,840</u>
Deferred:		
Federal	1,112	2,124
State	<u>294</u>	<u>562</u>
Total deferred	<u>1,406</u>	<u>2,686</u>
Total	<u>\$74,608</u>	<u>39,526</u>

Note E – Treasury Stock:

Consists of 913,645 shares as of May 31, 2005 at a net cost of \$321,932 and 863,645 shares at a net cost of \$292,182 as of May 31, 2004.

There were no treasury share purchases made by the Company during the three months ended May 31, 2005 and 2004, respectively.

EPOLIN, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MAY 31, 2005 AND 2004

Note F – Economic Dependency:

A material portion of the Company's business is dependent on certain domestic customers, the loss of which could have a material effect on operations. During the three months ended May 31, 2005, approximately 44.1% of sales were to four customers. Two of these customers, located in the Eastern United States, accounted for 28.3% of sales. During the three months ended May 31, 2004, approximately 51.6% of sales were to four customers, two of these customers, located in the Eastern United States, accounted for 39.0% of sales.

Note G – Rental Income Under Sublease:

The Company entered into a sublease agreement with a non-related party effective November 1, 2002 for a five-year term ending October 31, 2007. Under the terms of the lease, the tenant is to pay a base rent of \$36,000 per year. In addition, the tenant is to reimburse the Company for all costs and expenses incurred by the Company for improvements to such leased property in excess of \$75,000. The excess amount was recorded on the balance sheet as a note receivable. Payments on the note were \$2,500 a month including interest of 6% a year. The note was paid in full as of August 31, 2003.

Note H – Employee Benefits:

Simplified Employee Pension Plan – Effective June 1, 1994, the Company provides a SAR/SEP plan to its employees as a retirement and income tax reduction facility. Full time employees are eligible to participate immediately. Employees may make pre-tax and after-tax contributions subject to Internal Revenue Service limitations. Company contributions range from three to 5 percent after completion of one year of service. Employer contributions totaled \$13,714 and \$10,453 for the three months ended May 31, 2005 and 2004, respectively.

EPOLIN, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MAY 31, 2005 AND 2004

Note H – Employee Benefits (continued):

Stock Option Plan – The Company previously adopted The 1986 Stock Option Plan. As of April 1996, under the terms of the Plan, options may no longer be granted. On December 1, 1995, options to acquire up to 490,000 shares of the Company's common stock were granted. Options exercised for all prior years totaled 455,000. Options cancelled for all prior years totaled 35,000. There were no outstanding options as of May 31, 2005.

The Company adopted the 1998 Stock Option Plan on December 1, 1998. Under the terms of the plan, the Company reserved 750,000 shares of common stock for issuance pursuant to the exercise of options to be granted under the Plan, which do not meet the requirements of Section 422 of the Code. On September 15, 2001, the Board of Directors increased the reserve to 1,500,000. Options granted expire five or ten years after the date granted and are subject to various vesting periods as follows: (1) none exercisable prior to the first anniversary of the date of grant, and (2) certain options will become exercisable as to 50% of the shares underlying the option on each of the first and second anniversaries of the date granted (3) certain options will become exercisable as to 50% of the shares underlying the option on each of the second and fourth anniversaries of the date granted. Options exercised through May 31, 2005 totaled 600,000. Options cancelled for all years totaled 120,000.

A summary of the status of the Company's 1998 stock option plan as of May 31, 2005, and the changes during the three months ended May 31, 2005 is presented below:

<u>Fixed Options:</u>	<u>Shares</u>	<u>Weighted-Average Exercise Price</u>
Balance – March 1, 2004	392,000	\$.29
Granted	-	-
Cancelled	(45,000)	.30
Exercised	<u>(25,000)</u>	.25
Balance – February 28, 2005	322,000	.30
Granted	-	-
Exercised	<u>-</u>	-
Balance – May 31, 2005	<u>322,000</u>	\$.30
Exercisable at May 31, 2005	180,000	

EPOLIN, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MAY 31, 2005 AND 2004

Note H – Employee Benefits (continued):

Stock Option Plan - The following table summarizes information about fixed stock options outstanding at May 31, 2005:

<u>Range of Exercise Price</u>	<u>Outstanding Options</u>		<u>Exercisable Options</u>	
	<u>Number Outstanding at 5/31/05</u>	<u>Weighted-average Remaining Contractual Life</u>	<u>Number Exercisable at 5/31/05</u>	<u>Weighted-average Exercise Price</u>
\$.25	155,000	1.3 years	155,000	\$.25
.30	25,000	2.5	25,000	.30
.35	142,000	8.7	-	.35

There are 458,000 options attributable to future grants.

Stock Option and Stock-Based Employee Compensation – On November 1, 2004, the Company entered into an “Option Agreement and Investment Agreement” with an employee, the terms of which are as follows:

1. Stock Option - An option to purchase 100,000 shares of common stock at an exercise price equal to the fair market value of the Company’s common stock at the date of grant. The option is exercisable only after the completion of the second year of employment.
2. Stock-based Employee Compensation – A grant of 100,000 shares of restricted common stock one year from the date of the agreement, provided the employee is then employed by the Company.

Note I – Segment Reporting:

The Company currently operates in a single operating segment. In addition, financial results are prepared and reviewed by management as a single operating segment. The Company continually evaluates its operating activities and the method utilized by management to evaluate such activities and will report on a segment basis if and when appropriate to do so.

EPOLIN, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MAY 31, 2005 AND 2004

Note I – Segment Reporting (continued):

Sales by geographic area are as follows:

	<u>Three Months Ended May 31,</u>	
	<u>2005</u>	<u>2004</u>
United States	\$ 479,116	376,784
Asia	235,195	78,380
Europe	80,670	8,559
Other nations	<u>11,319</u>	<u>-</u>
 Total	 <u>\$ 806,300</u>	 <u>463,723</u>

Two customers, located in the Eastern United States, accounted for more than 10% of revenues from continuing operations. One customer accounted for 16.4% of sales of which 11.8% was near infrared dyes and 4.6% was security inks. The other customer accounted for 11.9% of sales of near infrared dyes.

Long-lived assets include net property and equipment. The Company had long-lived assets of \$713,821 and \$592,829 located in the United States at May 31, 2005 and 2004, respectively.

Note J - Accrued Expenses:

Accrued expenses consisted of the following as of May 31, 2005 and 2004, respectively:

	<u>2005</u>	<u>2004</u>
Salaries and wages	\$ 8,358	3,102
Employment agreement	52,410	178,187
Professional fees	5,000	10,000
Property taxes	<u>8,142</u>	<u>8,141</u>
 Total accrued expenses	 <u>\$ 73,910</u>	 <u>199,430</u>

EPOLIN, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MAY 31, 2005 AND 2004

Note K - Earnings per Share:

Basic earnings per share are computed on the basis of the weighted average number of shares of common stock outstanding during the period. Diluted earnings per share is computed on the basis of the weighted average number of shares of common stock plus the effect of dilutive potential common shares outstanding during the period using the treasury stock method. Dilutive potential common shares include outstanding stock options. The components of basic and diluted earnings per share are as follows:

	<u>Three Months Ended May 31,</u>	
	<u>2005</u>	<u>2004</u>
Basic Earnings Per Common Share:		
Net income	\$ 138,152	48,820
Average common shares outstanding	<u>11,815,355</u>	<u>11,840,355</u>
Basic earnings per common share	<u>\$ 0.01</u>	<u>-</u>
Diluted Earnings Per Common Share:		
Net income	<u>\$ 138,152</u>	<u>48,820</u>
Average common shares outstanding	11,835,910	11,845,960
Common shares issuable with respect to options issued to employees with a dilutive effect	<u>147,545</u>	<u>182,091</u>
Total diluted common shares outstanding	<u>11,983,455</u>	<u>12,028,051</u>
Diluted earnings per common share	<u>\$ 0.01</u>	<u>-</u>

EPOLIN, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MAY 31, 2005 AND 2004

Note L – Commitments and Contingencies:

Losses for contingencies such as litigation and environmental matters are recognized in income when they are probable and can be reasonably estimated. Gain contingencies are not recognized in income.

Lease Obligations:

The company leases its real estate under an operating lease with a related party. The lease effective November 1, 1996 was for a term of five (5) years with three (3) five (5) year options at annual rentals of \$97,740. The Cost of Living Index adjustment effective with the second year has been waived by the subsidiary. Rent includes reimbursed insurance costs. Generally, management expects that the lease will be renewed in the normal course of business.

Rental expense charged to operations, eliminated in consolidation, amounted to \$24,435 for the three months ended May 31, 2005 and 2004, respectively.

Future minimum payments for the current option period:

Fiscal years ending February:

2006	\$73,305
2007	97,740
2008	97,740
2009	65,160

Deferred Compensation – On December 29, 1995, the Company entered into a deferred compensation agreement with an officer whose additional annual compensation of \$19,645 plus interest is deferred until he reaches age 65 or is terminated. The obligation is funded by a life insurance policy. Annual payments to the officer of \$32,000 for ten consecutive years shall commence the first day of the month following his 65th birthday or termination.

In connection with this agreement, deferred compensation of \$6,020 was charged to selling, general and administrative expenses for the three months ended May 31, 2005 and 2004, respectively.

On January 1, 1996, the Company entered into a deferred compensation agreement with another officer wherein \$25,000 per year was accrued. This agreement, with unfunded accruals of \$79,041 terminated on June 25, 1998, and will be paid upon retirement in either equal consecutive monthly payments for a period not exceeding sixty (60) months or a single payment equal to the then present value of the account, said selection to be at the discretion of the Company.

EPOLIN, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MAY 31, 2005 AND 2004

Note L – Commitments and Contingencies (continued):

Employment Agreements – Effective March 1, 1999, the Company entered into ten-year employment agreements with officers/directors:

Murray S. Cohen, PhD, Chairman of the Board and Chief Executive Officer - To be paid an annual salary of not less than the greater of his annual base salary in effect immediately prior to the effective date of the agreement or any subsequently established annual base salary. He is to receive 2.00% on gross annual sales of no more than \$3,000,000, effective with the year ended February 28, 2001, increasing by 0.25% a year during the term of the agreement.

James Ivchenko, President - To be paid an annual salary of not less than the greater of his annual base salary in effect immediately prior to the effective date of the agreement or any subsequently established annual base salary. He is to receive 1.5% on gross annual sales of no more than \$3,000,000, effective with the year ended February 28, 2001, increasing by 0.25% a year during the term of the agreement.

Accrued compensation included in selling, general and administrative as of May 31, 2005 and 2004 was \$52,410 and \$27,823, respectively.

Note M – Research and Development:

The Company has developed substantial research and development capability. The Company's efforts are devoted to (i) developing new products to satisfy defined market needs, (ii) providing quality technical services to assure the continued success of its products for its customers' applications, (iii) providing technology for improvements to its products, processes and applications, and (iv) providing support to its manufacturing plant for cost reduction, productivity and quality improvement programs. Expenditures for Company sponsored product research and product development of \$116,675 and \$99,010 were included in cost of sales for the three months ended May 31, 2005 and 2004, respectively. Expenditures in 2006 are projected to remain at approximately the same level as in 2005.

EPOLIN, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MAY 31, 2005 AND 2004

Note N – Environmental Matters

The Company's past and present daily operations include activities, which are subject to extensive federal, and state environmental and safety regulations. Compliance with these regulations has not had, nor does the Company expect such compliance to have, any material effect upon expected capital expenditures, net income, financial condition or competitive position of the Company. The Company believes that its current practices and procedures comply with applicable regulations. The Company's policy is to accrue environmental and related costs of a non-capital nature when it is both probable that a liability has been incurred and that the amount can be reasonably estimated. No such amounts have been accrued in these statements.

CERTIFICATION

I, Murray S. Cohen, certify that:

1. I have reviewed this quarterly report on Form 10-QSB of Epolin, Inc.;
2. Based on my knowledge, this report does not contain any untrue statements 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 report;
3. Based on my knowledge, the financial statements, and other financial information included in this 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 report;
4. The small business issuer's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the small business issuer and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the small business issuer, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Evaluated the effectiveness of the small business issuer's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (c) Disclosed in this report any change in the small business issuer's internal control over financial reporting that occurred during the small business issuer's most recent fiscal quarter that has materially affected, or is reasonable likely to materially affect, the small business issuer's internal control over financial reporting; and
5. The small business issuer's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the small business issuer's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonable likely to adversely affect the small business issuer's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the small business issuer's internal control over financial reporting.

Dated: July 5, 2005

By: /s/ Murray S. Cohen
Murray S. Cohen,
Chairman of the Board and
Chief Executive Officer
(Principal Executive Officer)

CERTIFICATION

I, James Ivchenko, certify that:

1. I have reviewed this quarterly report on Form 10-QSB of Epolin, Inc.;
2. Based on my knowledge, this report does not contain any untrue statements 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 report;
3. Based on my knowledge, the financial statements, and other financial information included in this 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 report;
4. The small business issuer's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the small business issuer and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the small business issuer, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Evaluated the effectiveness of the small business issuer's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (c) Disclosed in this report any change in the small business issuer's internal control over financial reporting that occurred during the small business issuer's most recent fiscal quarter that has materially affected, or is reasonable likely to materially affect, the small business issuer's internal control over financial reporting; and
5. The small business issuer's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the small business issuer's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonable likely to adversely affect the small business issuer's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the small business issuer's internal control over financial reporting.

Dated: July 5, 2005

By: /s/ James Ivchenko
James Ivchenko,
President (Principal Financial Officer)

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE
SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of Epolin, Inc. (the "Company") on Form 10-QSB for the period ended May 31, 2005, as filed with the Securities and Exchange Commission (the "Report"), the undersigned certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, to the best of the undersigned's knowledge, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: July 5, 2005

By: /s/ Murray S. Cohen
Murray S. Cohen,
Chairman of the Board and
Chief Executive Officer

Dated: July 5, 2005

By: /s/ James Ivchenko
James Ivchenko,
President (Principal Financial Officer)