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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, DC 20549

**FORM 10-Q**

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

**For the quarterly period ended May 31, 2009**

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 **000-17741**

**EPOLIN, INC.**

(Exact name of Registrant as Specified in its Charter)

**New Jersey**  
(State or other jurisdiction  
of incorporation or  
organization)

**22-2547226**  
(I.R.S. Employer  
Identification No.)

**358-364 Adams Street**  
**Newark, New Jersey**  
(Address of principal  
executive offices)

**07105**  
(Zip Code)

**(973) 465-9495**

(Registrant's Telephone Number, Including Area Code)

**Not applicable**

(Former Name, Former Address and Former Fiscal Year, if Changed Since Last Report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definition of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer  Accelerated filer   
Non-accelerated filer  Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined by Rule 12b-2 of the Exchange Act).

Yes  No

State the number of shares outstanding of each of the Issuer's classes of common stock, as of the latest practicable date:  
no par value per share: 12,066,355 outstanding as of July 1, 2009.

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**EPOLIN, INC.**

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## **PART I - FINANCIAL INFORMATION**

### **Item 1. Financial Statements.**

See the Consolidated Financial Statements annexed to this report.

### **Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.**

The following discussion should be read in conjunction with the audited consolidated financial statements and the notes thereto appearing elsewhere 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 Part I, Item 1A "Risk Factors" of the Company's Form 10-K for the year ended February 28, 2009. The Company does not intend to update these forward-looking statements.

#### **Executive Overview**

Epolin, Inc. (the "Company", "we", "us" and "our") which was incorporated in the State of New Jersey in May 1984, is a specialized chemical company primarily engaged in the manufacturing, marketing, research and development of dyes and dye formulations. Our 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. Paralleling the growth of the dye business, we maintain a level of production and sales of specialty products made on a custom basis. These include additives for plastics, thermochromic materials for use in paints as well as other specialty chemicals made in low volume to sell at prices that reflect the value of the product. However, unlike the dye business, we do not expect our specialty chemical business to grow.

We sell our products to manufacturers of plastics/resins, credit cards, electronics, glass and other basic materials. Our customers are located in all regions of the world, although a material portion of our 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, 2009, approximately 48.1% of sales were to three customers. During the three months ended May 31, 2008, approximately 31.8% of sales were to three customers. The loss of one or more key customers could have a material adverse effect on the Company.

#### **Results of Operations**

The following tables set forth operations data for the three months ended May 31, 2009 and 2008.

### **Three Months Ended May 31,**

	<u>2009</u>	<u>2008</u>	<u>% change</u>
Sales	\$726,169	\$912,791	-20.4%
Gross profit	470,514	522,729	-10.0%
Gross profit percentage	64.8%	57.3%	7.5%
Selling, general & administrative	<u>259,065</u>	<u>293,647</u>	-11.8%
Operating income	211,449	229,082	-7.7%
Other Income	<u>12,367</u>	<u>17,005</u>	-27.3%
Income before taxes	223,816	246,087	-9.1%
Income taxes	83,950	96,935	-13.4%
Net income (after taxes)	<u>\$139,866</u>	<u>\$149,152</u>	-6.2%

#### **Sales**

For the three months ended May 31, 2009, sales were \$726,000 as compared to \$913,000 for the three months ended May 31, 2008, a decrease of \$187,000 or 20.4%.

Such decreases in sales is primarily due to reduced sales in the ink and coating market as well as the light management market. Sales in the ink and coating market were \$132,000 for the three months ended May 31, 2009 compared to \$263,000 for the three months ended May 31, 2008, a decrease of \$131,000, and sales in the light management market were \$130,000 for the three months ended May 31, 2009 compared to \$216,000 for the three months ended May 31, 2008, a decrease of \$86,000. While sales declined in these two markets, sales in the eye protection market, which represents our oldest and traditional market, increased to \$432,000 for the three months ended May 31, 2009 from \$383,000 for the three months ended May 31, 2008, an increase of \$49,000.

Sales in the United States increased for the three months ended May 31, 2009 while sales decreased in Europe and Asia for the three months ended May 31, 2009 compared to the prior year period. For the three months ended May 31, 2009, sales increased in the United States to \$665,000 from \$626,000 for the three months ended May 31, 2008, while in Europe sales decreased to \$39,000 for the three months ended May 31, 2009 from \$85,000 for the prior year period, and in Asia, sales decreased to \$21,000 for the three months ended May 31, 2009 from \$201,000 for the three months ended May 31, 2008.

#### **Gross Profit**

Gross profit, defined as sales less cost of sales, was \$471,000 or 64.8% of sales for the three months ended May 31, 2009, compared to \$523,000 or 57.3% of sales for the three months ended May 31, 2008. While our gross profit percentage increased by 7.5%, gross profit decreased in terms of absolute dollars by \$52,000 for the three months ended May 31, 2009 compared to the prior year period.

Cost of sales was \$256,000 for the three months ended May 31, 2009 which represented 35.3% of sales compared to \$391,000 for the three months ended May 31, 2008 which represented 42.8% of sales. Total cost of materials decreased \$102,000 in the three months ended May 31, 2009 compared to the prior year period primarily due to decreases in purchases and production salaries, and total factory overhead decreased \$33,000 in the three months ended May 31, 2009 compared to the prior year period, primarily due to decreases in research and development salaries and applied factory overhead, offset by an increase in research and development supplies.

#### **Selling, General and Administrative Expenses**

Selling, general and administrative expenses were \$259,000 or 35.7% of sales for the three months ended May 31, 2009 compared to \$294,000 or 32.2% of sales for the three months ended May 31, 2008, a decrease of \$35,000. Such

decrease in absolute dollars was primarily due to a decrease in officers' salaries and administrative salaries, and decreases in commission and consulting fees offset by increases in professional fees.

### **Operating Income**

Operating income, in terms of absolute dollars, decreased to \$211,000 for the three months ended May 31, 2009 from \$229,000 for the three months ended May 31, 2008, a decrease of \$18,000. Such decrease was primarily due to the decrease in sales for the three months ended May 31, 2009 compared to the prior year period offset by lesser decreases in cost of sales and expenses over the same periods. As a percentage of sales, operating income was 29.1% of sales for the three months ended May 31, 2009 compared to 25.1% of sales for the three months ended May 31, 2008.

### **Other Income**

Total other income was \$12,000 for the three months ended May 31, 2009 compared to \$17,000 for the three months ended May 31, 2008. While rental income remained the same, interest income decreased to \$8,000 in the three months ended May 31, 2009 from \$13,000 in the three months ended May 31, 2008.

### **Net Income**

During the three months ended May 31, 2009, we reported income before taxes of \$224,000 as compared to income before taxes of \$246,000 for the three months ended May 31, 2008, a decrease of \$22,000. Income taxes were \$84,000 for the three months ended May 31, 2009 compared to income taxes of \$97,000 for the three months ended May 31, 2008. The changes in income taxes were generally attributed to changes from period to period in sales and expenses. Net income after taxes was \$140,000 or \$0.01 per share for the three months ended May 31, 2009 as compared to net income after taxes of \$149,000 or \$0.01 per share for the three months ended May 31, 2008.

Net income in the future will be dependent upon our ability to increase revenues faster than increases, if any, in our selling, general and administrative expenses, research and development expenses and other expenses. Prior to fiscal 2007, sales had grown for a number of consecutive years. In fiscal 2007, however, sales decreased by \$91,000 compared to fiscal 2006 and, in fiscal 2008, sales decreased by \$17,000 compared to fiscal 2007. The largest reduction in sales in recent years occurred in fiscal 2009 with sales decreasing by \$501,000 compared to fiscal 2008. Sales have continued to decrease into fiscal 2010 with sales decreasing by \$187,000 during the three months ended May 31, 2009 compared to the prior year period. Unlike fiscal 2008 and 2007, however, in which net income did improve in each year compared to the prior year, net income in fiscal 2009 decreased by \$396,000 compared to fiscal 2008. While such decrease in net income has continued into the first three months of fiscal 2010, such decrease has not been as dramatic with net income decreasing by \$9,000 in the three months ended May 31, 2009 compared to the three months ended May 31, 2008.

### **Operations Outlook**

Following a period of readjustment in our business priorities, we were able to achieved \$3,701,000 in sales for fiscal 2006 which was \$821,000 or 28.5% greater than the prior fiscal year. In fiscal 2007, however, sales decreased to \$3,610,000, a decrease of 2.5% from the prior year, and in fiscal 2008, sales decreased to \$3,593,000, a decrease of 0.5% from fiscal 2007. This continued into fiscal 2009 in which sales decreased at a much greater rate to \$3,092,000 or 14.0% compared to fiscal 2008, as well as the first three months of fiscal 2010 in which sales decreased by \$187,000 compared to the comparable period of fiscal 2009. During these periods of reduced sales, we had a major decline in sales of security inks for the credit card market which had been a key area of our growth from 2005 to 2007. While this market remains a source of business for us, we will likely not be able to achieve the same level of sales in the future which we achieved from 2005 to 2007 in the security inks market. Nevertheless, we are confident that with our core group of products, we will be able to maintain sales in our principal markets, such as the eye protection market and the light management market, while always seeking new areas for the use of our dyes.

As a result of recent expressions of interest received, management began in fiscal 2009 to explore strategic alternatives for the Company. In February 2009, the Company retained Millburn Capital Group as its financial advisor in connection with the Board's decision to explore strategic alternatives for the Company, including the potential sale of the Company. In May 2009, the Company announced that it has entered into a non-binding letter of intent whereby all of the outstanding capital stock of the Company will be acquired by a strategic purchaser. There can be no assurance that any definitive agreement will be entered into, that any proposed transaction will be approved by the shareholders of the Company or that a transaction will be completed as a result of the execution of the letter of intent. The Company does not currently intend to publicly disclose additional information about the status of this process but will publicly report all

required information on a timely basis.

### **Liquidity and Capital Resources**

Our primary source of funds is cash flow from operations in the normal course of selling products. On May 31, 2009, we had working capital of \$2,729,000, a debt to equity ratio of 0.09 to 1, and stockholders' equity of \$3,689,000 compared to working capital of \$2,913,000, a debt to equity ratio of 0.13 to 1, and stockholders' equity of \$3,821,000 on May 31, 2008. On May 31, 2009, we had \$1,558,000 in cash and cash equivalents, total assets of \$4,008,000 and total liabilities of \$319,000, compared to \$1,907,000 in cash and cash equivalents, total assets of \$4,305,000 and total liabilities of \$484,000 on May 31, 2008.

Net cash provided by operating activities for the three months ended May 31, 2009 was \$3,000 which was primarily the result of net income of \$140,000, plus decreases in prepaid expenses of \$20,000 and prepaid taxes of \$87,000, offset by a decrease in accrued expenses of \$228,000 and increases in accounts receivable of \$17,000 and inventories of \$21,000. Net cash provided by operating activities for the three months ended May 31, 2008 was \$195,000 which was primarily the result of net income of \$149,000, plus decreases in accounts receivable of \$50,000, inventories of \$33,000 and prepaid expenses of \$17,000, and increases in taxes payable of \$56,000, offset by a decrease in accrued expenses of \$145,000.

Net cash provided by investing activities for the three months ended May 31, 2009 was \$10,000 due a decrease in cash value of a life insurance policy of \$38,000 offset by payments for property and equipment of \$28,000, compared to net cash used by investing activities of \$29,000 for the three months ended May 31, 2008 due to an increase in cash value of a life insurance policy of \$3,000 and payments for property and equipment of \$26,000.

For the three months ended May 31, 2009, there was no cash flows from or used in financing activities compared to \$239,000 used in financing activities in the three months ended May 31, 2008 due to the payment of a cash dividend to shareholders. There was no comparable dividend paid in the three months ended May 31, 2009.

We anticipate, based on currently proposed plans and assumptions relating to our operations, that our 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. Our contemplated cash requirements for the balance of fiscal 2010 and beyond will depend primarily upon level of sales of our products, inventory levels, product development, sales and marketing expenditures and capital expenditures.

Inflation has not significantly impacted our 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* – Effective March 1, 2006, we have adopted Statement of Financial Accounting Standards (“SFAS”) No. 123(R), “Share-Based Payment”. SFAS 123R requires companies to measure and recognize in operations the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value. In accordance with the provisions of the Securities and Exchange Commission Staff Accounting Bulletin No. 107, we have adapted the modified-prospective transition method. Prior periods were not restated to reflect the impact of adopting the new standard. We determine the fair value of stock-based compensation using the Black-Scholes option-pricing model, which requires us to make assumptions regarding future dividends, expected volatility of our stock, and the expected lives of the options. Under SFAS 123R we also make assumptions regarding the number of options and the number of shares of restricted stock and performance shares that will ultimately vest. As a result of the adoption of FAS 123R, stock-based compensation expense recognized includes compensation expense for all share-based payments granted on or prior to, but not yet vested as of March 1, 2006, based on the grant date fair value estimated in accordance with the original provisions of FAS 123, and compensation cost for all share-based payments granted on or subsequent to March 1, 2006, based on the grant date fair value estimated in accordance with the provisions of FAS 123R.

### **Recently Adopted Accounting Standards**

On March 1, 2008, we adopted Statement of Financial Accounting Standard (“SFAS”) No. 157, “Fair Value Measurements” (“FAS 157”) for financial assets and liabilities, which clarifies the meaning of fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. Fair value is defined under FAS 157 as the exchange price that would be received for an asset or paid to transfer a liability in the principal or most advantageous market for the assets or liabilities in an orderly transaction between market participants on the measurement date. Subsequent changes in fair value of these financial assets and liabilities are recognized in earnings or other comprehensive income when they occur. The effective date of the provisions of FAS 157 for non-financial assets and liabilities, except for items recognized at fair value on a recurring basis, was deferred by Financial Accounting Standards Board (“FASB”) Staff Position FAS 157-2 (“FSP FAS 157-2”) and are effective for the fiscal year beginning March 1, 2009. We are currently evaluating the impact of the provisions for non-financial assets and liabilities. The adoption of FAS 157 for financial assets and liabilities did not have an impact on our consolidated financial position or results of operations.

Also, effective March 1, 2008, we adopted SFAS No. 159 “The Fair Value Option for Financial Assets and Financial Liabilities” (“FAS 159”) which allows an entity the irrevocable option to elect fair value for the initial and subsequent measurement for certain financial assets and liabilities on a contract-by-contract basis. As of February 28, 2009, we have not elected the fair value option for any additional financial assets and liabilities beyond those already prescribed by accounting principles generally accepted in the United States.

In October 2008, the FASB issued Staff Position No. FAS 157-3, “Determining the Fair Value of a Financial Asset in a Market That Is Not Active (“FSP FAS 157-3”).” FSP FAS 157-3 clarifies the application of FAS 157 in a market that is not active and defines additional key criteria in determining the fair value of a financial asset when the market for that financial asset is not active. FSP FAS 157-3 applies to financial assets within the scope of accounting pronouncements that require or permit fair value measurements in accordance with FAS 157. FSP FAS 157-3 was effective upon issuance and the application of FSP FAS 157-3 did not have a material impact on our consolidated financial statements.

### **Other Information**

Subsequent to the end of fiscal 2006, the Board of Directors approved the adoption of a dividend policy under

which we will issue a regular annual cash dividend on shares of our Common Stock. The amount of the dividend, record date and payment date will be subject to approval every year by the Board of Directors. In accordance with the new dividend policy, a regular annual cash dividend of \$0.02 per share was paid in each of May 2006, May 2007 and May 2008. In addition, since of the adoption of the dividend policy in fiscal 2007, a special cash dividend of \$0.02 per share was paid in each of January 2007 and January 2008, and a supplemental special cash dividend of \$0.04 per share was paid in August 2008. We did not declare another special cash dividend in January 2009 similar to the special cash dividends we have paid in January of prior years. Primarily due the Company's recent decision to seek strategic alternatives, the Board determined to postpone any action regarding the declaration of the regular annual cash dividend for 2009 and beyond pending the outcome of this process.

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. There were no repurchases made by the Company of shares of its Common Stock during the fiscal years ended February 29, 2008 and February 29, 2009, and during the first three months of fiscal 2010. In prior years, since the adoption of the program in August 2001, a total of 331,500 shares were repurchased at a cumulative cost of \$195,766.

### **Off-Balance Sheet Arrangements**

We do not have any off balance sheet arrangements that are reasonably likely to have a current or future effect on our financial condition, revenues, and results of operations, liquidity or capital expenditures.

### **Item 3. Quantitative and Qualitative Disclosures About Market Risk.**

We are a smaller reporting company as defined by Rule 12b-2 of the Securities Exchange Act of 1934 and are not required to provide the information under this item.

### **Item 4T. Controls and Procedures.**

Under the supervision and with the participation of our management, including the Principal Executive Officer and Principal Financial Officer, we have evaluated the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) and Rule 15d-15(e) of the Exchange Act) as of the end of the period covered by this report. Based on that evaluation, our Principal Executive Officer and Principal Financial Officer have concluded that, as of May 31, 2009, these disclosure controls and procedures were effective to ensure that all information required to be disclosed by us in the reports that we file or submit under the Exchange Act is: (i) recorded, processed, summarized and reported, within the time periods specified in the Commission's rule and forms; and (ii) accumulated and communicated to our management, including our Principal Executive Officer and Principal Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

There have been no significant changes in our internal controls over financial reporting that occurred during the fiscal quarter covered by this report that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## PART II - OTHER INFORMATION

### Item 1. **Legal Proceedings.**

There are no material pending legal proceedings to which we are a party or to which any of our 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

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this Report to be signed on its behalf by the undersigned thereunto duly authorized.

**EPOLIN, INC.**  
(Registrant)

Dated: July 8, 2009

By: /s/ Murray S. Cohen  
Murray S. Cohen,  
Chairman of the Board

Dated: July 8, 2009

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

**EPOLIN, INC. AND SUBSIDIARY**  
**CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)**  
**THREE MONTHS ENDED**  
**MAY 31, 2009 AND 2008**

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**EPOLIN, INC. AND SUBSIDIARY**  
**CONSOLIDATED BALANCE SHEETS (Unaudited)**

**ASSETS**

	<b>May 31,</b>	
	<b>2009</b>	<b>2008</b>
<b>Current assets:</b>		
Cash and cash equivalents	\$ 1,558,369	1,906,536
Accounts receivable	388,591	568,800
Inventories	688,125	609,687
Prepaid expenses	36,281	43,655
Prepaid taxes	141,816	-
Deferred tax assets-current portion	11,794	20,212
Total current assets	2,824,976	3,148,890
<b>Plant, property and equipment - at cost:</b>		
Land	81,000	81,000
Building and improvements	767,300	734,578
Laboratory equipment	191,549	189,300
Furniture and office equipment	260,962	217,795
Leasehold improvements	532,131	458,495
Total	1,832,942	1,681,168
Less: Accumulated depreciation and amortization	930,542	825,826
Net plant, property and equipment	902,400	855,342
<b>Other assets:</b>		
Deferred tax assets-non current portion	104,767	96,626
Cash value - life insurance policy	175,543	204,389
Total other assets	280,310	301,015
Total	\$ 4,007,686	4,305,247

The accompanying notes are an integral part of these consolidated financial statements.

**EPOLIN, INC. AND SUBSIDIARY**  
**CONSOLIDATED BALANCE SHEETS (CONTINUED) (Unaudited)**

**LIABILITIES AND STOCKHOLDERS' EQUITY**

	May 31,	
	2009	2008
<b>Current liabilities:</b>		
Accounts payable	\$ 37,058	13,742
Accrued expenses	56,766	126,208
Taxes payable:		
Payroll	2,208	1,889
Income	-	93,835
Total current liabilities	96,032	235,674
<b>Other liabilities</b> - Deferred compensation	222,811	248,359
Total liabilities	318,843	484,033
<b>Commitments and Contingencies</b>		
<b>Stockholders' equity:</b>		
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; 13,015,000 and 12,915,000 shares issued, and 12,066,355 and 11,966,355 shares outstanding at May 31, 2009 and 2008 repectively	2,364,693	2,364,693
Additional paid-in capital	104,820	76,820
Retained earnings	1,570,412	1,730,783
Total	4,039,925	4,172,296
Less: Treasury stock - at cost	351,082	351,082
Total stockholders' equity	3,688,843	3,821,214
Total	\$ 4,007,686	4,305,247

The accompanying notes are an integral part of these consolidated financial statements.

**EPOLIN, INC. AND SUBSIDIARY**  
**CONSOLIDATED STATEMENTS OF INCOME (Unaudited)**  
**THREE MONTHS ENDED MAY 31, 2009 AND 2008**

	<u>2009</u>	<u>2008</u>
<b>Sales</b>	\$ 726,169	912,791
<b>Cost of sales and expenses:</b>		
Cost of sales	255,655	390,062
Selling, general and administrative	<u>259,065</u>	<u>293,647</u>
Total	<u>514,720</u>	<u>683,709</u>
<b>Operating income</b>	<u>211,449</u>	<u>229,082</u>
<b>Other income:</b>		
Rental income	4,500	4,500
Interest	<u>7,867</u>	<u>12,505</u>
Total	<u>12,367</u>	<u>17,005</u>
<b>Income before taxes</b>	223,816	246,087
<b>Income taxes</b>	<u>83,950</u>	<u>96,935</u>
<b>Net income</b>	<u>\$ 139,866</u>	<u>149,152</u>
<b>Per share data:</b>		
Basic earnings per common share	<u>\$ 0.01</u>	<u>0.01</u>
Fully diluted earnings per common share	<u>\$ 0.01</u>	<u>0.01</u>
Weighted average number of common shares outstanding	<u>12,066,355</u>	<u>11,966,355</u>
Fully diluted number of common shares outstanding	<u>12,106,791</u>	<u>12,006,791</u>

The accompanying notes are an integral part of these consolidated financial statements.

**EPOLIN, INC. AND SUBSIDIARY**  
**CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY (Unaudited)**  
**THREE MONTHS ENDED MAY 31, 2009 AND 2008**

	<u>Number of Shares Issued</u>	<u>Common Stock</u>	<u>Additional Paid-in- Capital</u>	<u>Retained Earnings</u>	<u>Treasury Shares</u>	<u>Treasury Stock</u>	<u>Stockholders' Equity</u>
<b>Balance - March 1, 2008</b>	12,915,000	\$ 2,364,693	76,820	1,820,958	948,645	(351,082)	3,911,389
<b>Dividends paid</b>	-	-	-	(239,327)	-	-	(239,327)
<b>Net income</b>	-	-	-	149,152	-	-	149,152
<b>Balance - May 31, 2008</b>	<u>12,915,000</u>	<u>\$ 2,364,693</u>	<u>76,820</u>	<u>1,730,783</u>	<u>948,645</u>	<u>(351,082)</u>	<u>3,821,214</u>
<b>Balance - March 1, 2009</b>	13,015,000	\$ 2,364,693	104,820	1,430,546	948,645	(351,082)	3,548,977
<b>Net income</b>	-	-	-	139,866	-	-	139,866
<b>Balance - May 31, 2009</b>	<u>13,015,000</u>	<u>\$ 2,364,693</u>	<u>104,820</u>	<u>1,570,412</u>	<u>948,645</u>	<u>(351,082)</u>	<u>3,688,843</u>

The accompanying notes are an integral part of these consolidated financial statements.

**EPOLIN, INC. AND SUBSIDIARY**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)**  
**THREE MONTHS ENDED MAY 31, 2009 AND 2008**

	<b>2009</b>	<b>2008</b>
<b>Cash flows from operating activities:</b>		
Net income	\$ 139,866	149,152
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	25,300	25,233
Deferred tax expense	(2,680)	3,317
Obligation under deferred compensation agreement	1,423	1,676
(Increase) decrease in:		
Accounts receivable	(17,148)	49,645
Inventories	(20,941)	32,842
Prepaid expenses	20,017	16,757
Prepaid taxes	86,530	-
Increase (decrease) in:		
Accounts payable	(1,640)	4,082
Accrued expenses	(227,658)	(144,547)
Taxes payable	-	56,435
Net cash provided by operating activities	3,069	194,592
<b>Cash flows from investing activities:</b>		
(Increase) decrease in cash value - life insurance policy	37,909	(3,020)
Payments for property and equipment	(27,575)	(25,851)
Net cash provided (used) in investing activities	10,334	(28,871)
<b>Cash flows used in financing activities -</b>		
Dividends paid	-	(239,327)
<b>Increase (decrease) in cash</b>	13,403	(73,606)
<b>Cash and cash equivalents:</b>		
Beginning	1,544,966	1,980,142
Ending	\$ 1,558,369	1,906,536
<b>Supplemental disclosures of cash flows:</b>		
Income taxes paid	\$ 127,818	337,842

The accompanying notes are an integral part of these consolidated financial statements.

**EPOLIN, INC. AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)**

**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 Corporation, 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:**

**Basis of Presentation** – The interim Consolidated Financial Statements presented herein are unaudited and should be read in conjunction with the Consolidated Financial Statements presented in the Company's Annual Report on Form 10-K for the fiscal year ended February 28, 2009. Such interim Consolidated Financial Statements reflect all normal and recurring adjustments that, in the opinion of management, are necessary for a fair presentation of the financial position, results of operations and cash flows of the Company for the periods presented. All significant intercompany accounts and transactions have been eliminated.

The results of operations for the three-month interim period ended May 31, 2009 and 2008 are not necessarily indicative of the results of operations for the fiscal year ending February 28, 2010.

**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 at various times of the year had cash deposits in financial institutions and a brokerage house in excess of the amount insured by the agencies of the federal government. In evaluating this credit risk, the Company periodically evaluates the stability of the financial institution and brokerage house.

Financial instruments, which potentially subject the Company to concentrations of credit risk, consist principally of accounts receivable. Generally, the Company does not require collateral or other securities to support its accounts receivable. Two customers represented 50.9% of the Company's trade receivables at May 31, 2009.

**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.

**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.

**EPOLIN, INC. AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited)**

**NOTE B - Summary of Significant Accounting Policies (continued):**

**Principles of Consolidation** - The accompanying Unaudited Consolidated Financial Statements include the accounts of the Company and Subsidiary. Inter-company transactions and balances have been eliminated in consolidation. Condensed Unaudited Consolidating Financial Statements as of May 31, 2009 and for the three months then ended are:

**CONDENSED CONSOLIDATING BALANCE SHEET**

	<u>Epolin Inc.</u>	<u>Epolin Holding, Corp.</u>	<u>Eliminations</u>	<u>Consolidated</u>
Current assets	\$ 2,425,722	399,254	-	2,824,976
Non-current assets	1,581,964	647,542	(1,046,796)	1,182,710
Total	<u>\$ 4,007,686</u>	<u>1,046,796</u>	<u>(1,046,796)</u>	<u>4,007,686</u>
Total liabilities	\$ 318,843	24,435	(24,435)	318,843
Stockholders' equity:				
Common stock	2,364,693	-	-	2,364,693
Additional paid-in capital	104,820	-	-	104,820
Retained earnings	1,570,412	1,022,361	(1,022,361)	1,570,412
Treasury stock	(351,082)	-	-	(351,082)
Total stockholders' equity	<u>3,688,843</u>	<u>1,022,361</u>	<u>(1,022,361)</u>	<u>3,688,843</u>
Total	<u>\$ 4,007,686</u>	<u>1,046,796</u>	<u>(1,046,796)</u>	<u>4,007,686</u>

**CONDENSED CONSOLIDATING STATEMENT OF INCOME**

	<u>Epolin Inc.</u>	<u>Epolin Holding, Corp.</u>	<u>Eliminations</u>	<u>Consolidated</u>
Sales	\$ 726,169	-	-	726,169
Rental income	-	28,935	(24,435)	4,500
Total	<u>726,169</u>	<u>28,935</u>	<u>(24,435)</u>	<u>730,669</u>
Cost of sales	255,655	-	-	255,655
Selling, general and administrative	275,736	7,764	(24,435)	259,065
Total	<u>531,391</u>	<u>7,764</u>	<u>(24,435)</u>	<u>514,720</u>
Operating income	194,778	21,171	-	215,949
Other income - interest	5,908	1,959	-	7,867
Income before taxes	200,686	23,130	-	223,816
Income taxes	82,020	1,930	-	83,950
Net income	<u>\$ 118,666</u>	<u>21,200</u>	<u>-</u>	<u>139,866</u>

**EPOLIN, INC. AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)**

**NOTE B – Summary of Significant Accounting Policies (continued):**

**Accounts Receivable** - Accounts receivable are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a charge to earnings and a credit to a valuation allowance based on its assessment of the status of individual accounts. This allowance is an amount estimated by management to be adequate to absorb possible losses. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable.

**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:

		<b><u>Estimated Years</u></b>
Building and improvements	Straight Line	39
Laboratory equipment	Straight Line	5 - 7
Furniture and office equipment	Straight Line	5 - 7
Leasehold Improvements	Straight Line	10 - 39

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 \$25,300 and \$25,233 for the three months ended May 31, 2009 and 2008, 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.

FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes — an interpretation of FASB Statement No. 109* (FIN 48), clarifies the accounting for uncertainty in income tax positions, as defined. FIN 48 requires, among other matters, that the Company recognize in its financial statements, the impact of a tax position, if that position is more likely than not of being sustained on audit, based on the technical merits of the position. The Company became subject to the provisions of FIN 48 as of March 1, 2007, the beginning of fiscal year ended 2008, and analyzed the filing positions in all of the federal and state jurisdictions where it is required to file income tax returns, as well as all open tax years in these jurisdictions. The adoption of FIN 48 had no impact on the Company's financial statements for fiscal year ended 2009. As of May 31, 2009 and 2008, the Company did not record any unrecognized tax benefits. The Company's policy, if it had unrecognized benefits, is to recognize accrued interest and penalties related to unrecognized tax benefits as interest expense and other expense, respectively.

**EPOLIN, INC. AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)**

**NOTE B – Summary of Significant Accounting Policies (continued):**

**Use of Estimates** – The preparation of the Company's financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates, judgments and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of expenses during the reporting period. The Company bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

**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 are in nonconformity with 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 \$5,571 and \$3,600 through May 31, 2009 and 2008, respectively, 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 \$6,480 and \$5,860 for the three months ended May 31, 2009 and 2008, respectively.

**EPOLIN, INC. AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)**

**NOTE B – Summary of Significant Accounting Policies (continued):**

**Stock-Based Compensation** – Effective March 1, 2006, the Company has adopted Statement of Financial Accounting Standards ("SFAS") No. 123(R), "Share-Based Payment". SFAS 123R requires companies to measure and recognize in operations the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value. In accordance with the provisions of the Securities and Exchange Commission Staff Accounting Bulletin No. 107, the Company has adapted the modified-prospective transition method. Prior periods were not restated to reflect the impact of adopting the new standard. The Company determines the fair value of stock-based compensation using the Black-Scholes option-pricing model, which requires the Company to make assumptions regarding future dividends, expected volatility of its stock, and the expected lives of the options. Under SFAS 123R the Company also makes assumptions regarding the number of options and the number of shares of restricted stock and performance shares that will ultimately vest. As a result of the adoption of FAS 123R, stock-based compensation expense recognized includes compensation expense for all share-based payments granted on or prior to, but not yet vested as of March 1, 2006, based on the grant date fair value estimated in accordance with the original provisions of FAS 123, and compensation cost for all share-based payments granted on or subsequent to March 1, 2006, based on the grant date fair value estimated in accordance with the provisions of FAS 123R.

Prior to the adoption of FAS 123R and for the year ended February 28, 2007, no tax benefits from the exercise of stock options have been recognized. Any future excess tax benefits derived from the exercise of stock options will be recorded prospectively and reported as cash flows from financing activities in accordance with FAS 123R.

Deferred charges for options granted to non-employees are determined in accordance with FAS No. 123 and EITF 96-18 "Accounting for Equity Instruments That Are Issued to Other Than Employees for Acquiring, or in Conjunction with Selling, Goods or Services" 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, 2009 and 2008 was \$.18, 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:

	<b>May 31,</b>	
	<b>2009</b>	<b>2008</b>
Weighted average expected life in years	2	3
Dividends per share	-	0.04
Volatility	7.0%	7.0%
Risk-free interest rate	4.0%	4.9%

**EPOLIN, INC. AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)**

**NOTE B – Summary of Significant Accounting Policies (continued):**

**Recently Adopted Accounting Standards** - On March 1, 2008, the Company adopted Statement of Financial Accounting Standard ("SFAS") No. 157, "Fair Value Measurements" ("FAS 157") for financial assets and liabilities, which clarifies the meaning of fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. Fair value is defined under FAS 157 as the exchange price that would be received for an asset or paid to transfer a liability in the principal or most advantageous market for the assets or liabilities in an orderly transaction between market participants on the measurement date. Subsequent changes in fair value of these financial assets and liabilities are recognized in earnings or other comprehensive income when they occur. The effective date of the provisions of FAS 157 for non-financial assets and liabilities, except for items recognized at fair value on a recurring basis, was deferred by Financial Accounting Standards Board ("FASB") Staff Position FAS 157-2 ("FSP FAS 157-2") and are effective for the fiscal year beginning March 1, 2009. The Company is currently evaluating the impact of the provisions for non-financial assets and liabilities. The adoption of FAS 157 for financial assets and liabilities did not have an impact on the Company's consolidated financial position or results of operations. For additional information on the fair value of financial assets and liabilities, see Note N – Fair Value Measurements.

Also, effective March 1, 2008, the Company adopted SFAS No. 159 "The Fair Value Option for Financial Assets and Financial Liabilities" ("FAS 159") which allows an entity the irrevocable option to elect fair value for the initial and subsequent measurement for certain financial assets and liabilities on a contract-by-contract basis. As of May 31, 2009, the Company has not elected the fair value option for any additional financial assets and liabilities beyond those already prescribed by accounting principles generally accepted in the United States.

In October 2008, the FASB issued Staff Position No. FAS 157-3, "Determining the Fair Value of a Financial Asset in a Market That Is Not Active ("FSP FAS 157-3)." FSP FAS 157-3 clarifies the application of FAS 157 in a market that is not active and defines additional key criteria in determining the fair value of a financial asset when the market for that financial asset is not active. FSP FAS 157-3 applies to financial assets within the scope of accounting pronouncements that require or permit fair value measurements in accordance with FAS 157. FSP FAS 157-3 was effective upon issuance and the application of FSP FAS 157-3 did not have a material impact on our consolidated financial statements.

**EPOLIN, INC. AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)**

**NOTE C – Income Taxes:**

1. Federal and State deferred tax assets include:

	<b>May 31,</b>	
	<b>2009</b>	<b>2008</b>
Temporary differences:		
Accelerated amortization	\$ 4,698	7,750
Deferred compensation	95,809	93,034
Stock-based compensation	<u>16,054</u>	<u>16,054</u>
Total	116,561	116,838
Current portion	<u>11,794</u>	<u>20,212</u>
Non-current portion	<u>\$104,767</u>	<u>96,626</u>

2. Income tax expense:

	<b>May 31,</b>	
	<b>2009</b>	<b>2008</b>
Current:		
Federal	\$67,200	275,000
State	<u>19,430</u>	<u>86,897</u>
Total current	<u>86,630</u>	<u>361,897</u>
Deferred:		
Federal	2,883	1,640
State	<u>203</u>	<u>1,677</u>
Total deferred	<u>2,680</u>	<u>3,317</u>
Total	<u>\$83,950</u>	<u>96,935</u>

**EPOLIN, INC. AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)**

**NOTE D – Treasury Stock:**

Consists of 948,645 shares at a net cost of \$351,082, as of May 31, 2009 and 2008, respectively. There were no purchases of treasury shares made during the three months ended May 31, 2009 and 2008, respectively.

**NOTE E – 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, 2009, approximately 48.1% of sales were to three customers. During the three months ended May 31, 2008, approximately 31.8% of sales were to three customers.

**NOTE F – Rental Income Under Sublease:**

The Company entered into an agreement with a non-related party effective September 1, 2005 for a term ending October 31, 2007, and continuing on a month-to-month basis thereafter through May 31, 2009. Under the terms of the agreement, the tenant is to pay a base rent of \$18,000 per year. The tenant is currently in arrears.

**NOTE G – 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 \$100,721 and \$105,692 were included in cost of sales for the three months ended May 31, 2009 and 2008, respectively. Expenditures for the fiscal year ended 2010 are projected to remain at approximately the same level as in fiscal 2009.

**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 five percent after completion of one year of service. Employer contributions totaled \$11,085 and \$16,836 for the three months ended May 31, 2009 and 2008, respectively.

**EPOLIN, INC. AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)**

**NOTE H – Employee Benefits (continued):**

**Stock Option Plan** – 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. From inception through May 31, 2009, options granted totaled 1,242,000, options exercised totaled 686,000; options cancelled or expired for all years totaled 240,000.

A summary of the status of the Company’s 1998 stock option plan as of May 31, 2009, and the changes during the three months ended May 31, 2009 and 2008 is presented below:

<b><u>Fixed Options:</u></b>	<b><u>Shares</u></b>	<b><u>Weighted-Average Exercise Price</u></b>
Balance – February 28, 2009	<u>316,000</u>	\$.50
Balance – May 31, 2009	<u>316,000</u>	\$.50
Exercisable at May 31, 2009	<u>316,000</u>	\$.50

**Stock Option and Stock-Based Employee Compensation** – On November 1, 2004, the Company entered into an “Option Agreement and Investment Agreement” with Gregory Amato, CEO, 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.

**EPOLIN, INC. AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)**

**NOTE H – Employee Benefits (continued):**

**Stock Option Plans** - The following table summarizes information about fixed stock options outstanding at May 31, 2009:

<u>Range of Exercise Price</u>	<u>Outstanding Options</u>		<u>Exercisable Options</u>	
	<u>Number Outstanding at 05/31/09</u>	<u>Weighted-Average Remaining Contractual Life</u>	<u>Number Exercisable at 05/31/09</u>	<u>Weighted-Average Exercise Price</u>
\$ .41	116,000	4.7	116,000	.23
.51	100,000	0.4	100,000	.25
.54	200,000	1.1	200,000	.52

**Stock Option and Stock-Based Compensation Plan** - On June 18, 2008, the Company’s Board of Directors approved and adopted the Epolin, Inc. 2008 Stock Incentive Plan (the “2008 Plan”), and authorized us to issue up to 1,500,000 shares of our Common Stock under the 2008 Plan (subject to adjustment to take account of stock dividends, stock splits, recapitalizations and similar corporate events). Under the 2008 Plan, the Company will have the right to issue stock options, stock appreciation rights, restricted stock, Common Stock or convertible securities that may or may not be subject to restrictions or forfeiture, restricted stock units, performance shares and performance units. With the adoption of the new 2008 Plan, the 1998 Plan will terminate, and the Company will no longer be able to grant options under it. However, options that have already been granted under the 1998 Plan will continue to be outstanding.

The purpose of the Plan is to provide officers, other employees and directors of, and consultants to, the Company, an incentive to (a) enter into and remain in the Company’s service or to provide services to the Company, (b) enhance the Company’s long term performance, (c) acquire a proprietary interest in the Company.

The Compensation Committee or another committee of our Board of Directors (or if there is no committee, the Board of Directors itself) will administer the Plan. It will determine the persons to whom awards will be made, the types of awards that will be made to particular persons, the numbers of shares to which awards will relate, the dates when awards will vest in whole or in part and the other terms of awards, including the payments, if any, that participants will have to make to benefit from awards.

The 2008 Plan provides that on September 1 of each year, commencing September 1, 2008, each person who serves as a Director on such date shall automatically receive a stock award of 25,000 shares of Common Stock. The dollar value of the shares of Common Stock to be granted on September 1 of each year is calculated based upon the fair market value of our Common Stock at the date of grant.

**EPOLIN, INC. AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)**

**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.

Sales by geographic area are as follows:

	<b>Three Months Ended</b>	
	<b>May 31,</b>	
	<b>2009</b>	<b>2008</b>
United States	\$ 664,920	626,360
Asia	20,674	201,059
Europe	38,530	85,372
Other nations	2,045	-
Total	\$ 726,169	912,791

Three customers, located in the United States and Asia, accounted for more than 10% of revenues from continuing operations. These customers accounted for 48.10% of sales of infrared dies.

Long-lived assets include net plant, property and equipment. The Company had long-lived assets of \$902,400 and \$855,342 located in the United States at May 31, 2009 and 2008, respectively.

**EPOLIN, INC. AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)**

**NOTE J - Accrued Expenses:**

Accrued expenses consisted of the following as of May 31, 2009 and 2008, respectively:

	<u>May 31,</u>	
	<u>2009</u>	<u>2008</u>
Salaries and wages	\$ 18,492	20,712
Purchases	2,492	11,073
Insurance	2,637	-
Rent	8,145	-
Employment agreement	-	73,023
Professional fees	25,000	10,500
Pension contribution	-	10,900
Total accrued expenses	<u>\$ 56,766</u>	<u>126,208</u>

**NOTE K - Inventories:**

	<u>May 31,</u>	
	<u>2009</u>	<u>2008</u>
Raw materials and supplies	\$ 146,355	162,222
Work in process	100,749	50,550
Finished goods	441,021	396,915
Total	<u>\$ 688,125</u>	<u>609,687</u>

**EPOLIN, INC. AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)**

**NOTE L - 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:

	<b>Three Months Ended</b>	
	<b>May 31,</b>	
	<b>2009</b>	<b>2008</b>
<b>Basic Earnings Per Common Share:</b>		
Net income	\$ 139,866	149,152
Average common shares outstanding	12,066,355	11,966,355
Basic earnings per common share	\$ 0.01	0.01
<b>Diluted Earnings Per Common Share:</b>		
Net income	\$ 139,866	149,152
Average common shares outstanding	12,066,355	11,966,355
Common shares issuable with respect to options issued to employees with a dilutive effect	40,436	40,436
Total diluted common shares outstanding	12,106,791	12,006,791
Diluted earnings per common share	\$ 0.01	0.01

**EPOLIN, INC. AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)**

**NOTE M – 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, 2009 and 2008, respectively.

Future minimum payments for the current option period:

<b><u>Fiscal Years Ending February:</u></b>	
2010	\$73,305
2011	65,160

**Deferred Compensation** – On December 29, 1995, the Company entered into a deferred compensation agreement with James Ivchenko, President, whose additional annual compensation of \$19,645 plus interest is deferred until he reaches age 65 or is terminated. The obligation is funded by the cash value in a life insurance policy. Commencing on December 2005, annual payments will be made to the officer in the amount of \$32,000 for ten consecutive years.

On January 1, 1996, the Company entered into a deferred compensation agreement with Dr. Murray S. Cohen, PhD, Chairman of the Board, 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 (Unaudited)**

**NOTE M – 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 - 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. Dr. Cohen is to receive 2.00% on gross annual sales of no more than \$3,000,000, effective with the year ended February 28, 2000, increasing by 0.25% a year during the term of the agreement. In the event of partial retirement, (50% employment), Dr. Cohen will receive fifty percent salary and 100% additional compensation. In the event of substantial retirement, (25% employment), Dr. Cohen will receive 25% percent salary and 100% additional compensation. In the event of full retirement, Dr. Cohen will receive 50% additional compensation. In the event of death or disability, while fully employed during the fiscal year, Dr. Cohen or his estate will receive 100% of his annual salary plus additional compensation as described above, and 50% of his annual salary plus additional compensation each subsequent year for the remainder of the ten-year term. If at the time of death or disability Dr. Cohen was retired, then other percentage rates are provided for based upon his retirement status.

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, 2000, increasing by 0.25% a year during the term of the agreement. In the event of death or disability during the fiscal year, Mr. Ivchenko or his estate will receive 100% of his annual salary plus additional compensation as described above, and 50% of his annual salary plus additional compensation each subsequent year for the remainder of the ten-year term.

Accrued compensation included in selling, general and administrative as of May 31, 2008 was \$73,023.

**Bonus Agreement** – Effective for the year ending February 28, 2006, the company shall pay Gregory Amato, CEO, bonus compensation in an amount equal to ten percent of the increase, if any, in the Company's current year consolidated net income as compared to the consolidated net income for the fiscal year ending February 28, 2006. The term net income shall mean consolidated net income after taxes but before any extraordinary items. For subsequent fiscal years, the employee shall be eligible for cash bonuses in such amounts as determined by the Compensation Committee.

**EPOLIN, INC. AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)**

**NOTE N - Fair Value Measurements:**

Effective March 1, 2008, the Company adopted FAS 157, which defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants at the measurement date. FAS 157 establishes a three-level fair value hierarchy that prioritizes the inputs used to measure fair value. This hierarchy requires entities to maximize the use of observable inputs and minimize the use of unobservable inputs. The three levels of inputs used to measure fair value are as follows:

Level 1 – Quoted prices in active markets for identical assets or liabilities.

Level 2 – Observable inputs other than quoted prices included in Level 1, such as quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar assets and liabilities in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3 – Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. This includes certain pricing models, discounted cash flow methodologies and similar techniques that use significant unobservable inputs.

All financial assets that are measured at fair value on a recurring basis (at least annually) have been segregated into the most appropriate level within the fair value hierarchy based on the inputs used to determine the fair value at the measurement date. These assets measured at fair value on a recurring basis are summarized below:

	<u>May 31, 2009</u>		<u>February 28, 2009</u>	
	<u>Carrying Amount</u>	<u>Fair Value</u>	<u>Carrying Amount</u>	<u>Fair Value</u>
<b><u>Assets:</u></b>				
Cash and cash equivalents	\$1,558,369	1,558,369	1,544,966	1,544,966
Other assets:				
Cash value – life insurance	<u>175,543</u>	<u>175,543</u>	<u>213,452</u>	<u>213,452</u>
Total assets at fair value	<u>\$1,733,912</u>	<u>1,733,912</u>	<u>1,758,418</u>	<u>1,758,418</u>
<b><u>Liabilities:</u></b>				
Deferred compensation	<u>\$ 222,811</u>	<u>222,811</u>	<u>221,388</u>	<u>221,388</u>

**EPOLIN, INC. AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)**

**NOTE N – Dividends:**

In April 2008, the Company's Board of Directors declared a cash dividend of \$0.02 per share on all common shares outstanding. The dividend, in the amount of \$239,327 was paid on May 14, 2008 to shareholders of record at the close of business on April 30, 2008.

**NOTE O – 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, Greg Amato, certify that:

1. I have reviewed this quarterly report on Form 10-Q 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 registrant'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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant 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 registrant, 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) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant'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;
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonable likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant'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 reasonably likely to adversely affect the registrant'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 registrant's internal control over financial reporting.

Dated: July 8, 2009

By: /s/ Greg Amato  
Greg Amato,  
Chief Executive Officer  
(Principal Executive Officer)

**CERTIFICATION**

I, James Ivchenko, certify that:

1. I have reviewed this quarterly report on Form 10-Q 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 registrant'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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant 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 registrant, 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) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant'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;
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonable likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant'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 reasonably likely to adversely affect the registrant'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 registrant's internal control over financial reporting.

Dated: July 8, 2009

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-Q for the period ended May 31, 2009, 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 8, 2009

By: /s/ Greg Amato  
Greg Amato,  
Chief Executive Officer  
(Principal Executive Officer)

Dated: July 8, 2009

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