
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 November 30, 2010

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: 12,266,355 outstanding as of January 12, 2011.

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, 2010. 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 nine months ended November 30, 2010, approximately 27.9% of sales were to three customers. During the nine months ended November 30, 2009, approximately 38.0% 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 and nine months ended November 30, 2010 and 2009.

Three Months Ended November 30,

	<u>2010</u>	<u>2009</u>	<u>% change</u>
Sales	\$802,397	\$805,913	-0.4%
Gross profit	372,262	460,974	-19.2%
Gross profit percentage	46.4%	57.2%	-10.8%
Selling, general & administrative	<u>432,792</u>	<u>262,402</u>	64.9%
Operating income	(60,530)	198,572	-130.5%
Other Income	<u>2,283</u>	<u>5,893</u>	-61.3%
Income (loss) before taxes	(58,247)	204,465	-128.5%
Income taxes	<u>(19,130)</u>	<u>77,457</u>	-124.7%
Net income (loss) (after taxes)	<u>\$(39,117)</u>	<u>\$ 127,008</u>	-130.8%

Nine Months Ended November 30,

	<u>2010</u>	<u>2009</u>	<u>% change</u>
Sales	\$2,283,900	\$2,240,660	1.9%
Gross profit	1,106,583	1,289,528	-14.2%
Gross profit percentage	48.5%	57.6%	-9.1%
Selling, general & administrative	<u>1,056,547</u>	<u>814,658</u>	29.7%
Operating income	50,036	474,870	-89.5%
Other Income	<u>7,977</u>	<u>25,017</u>	-68.1%
Income before taxes	58,013	499,887	-88.4%
Income taxes	<u>18,041</u>	<u>185,533</u>	-90.3%
Net income (after taxes)	<u>\$39,972</u>	<u>\$ 314,354</u>	-87.3%

Sales

For the three months ended November 30, 2010, sales were \$802,000 as compared to \$806,000 for the three months ended November 30, 2009, a decrease of \$4,000 or 0.4%. Sales increased to \$2,284,000 for the nine months ended November 30, 2010 from \$2,241,000 for the nine months ended November 30, 2009, an increase of \$43,000 or 1.9%.

While there was no significant change in total sales in the three months ended November 30, 2010 compared to the three months ended November 30, 2009, sales in the eye protection market and the ink and coating market did decrease offset by an increase in sales in the light management market. The modest increase in sales for the nine months ended November 30, 2010 compared to the nine months ended November 30, 2009 was primarily due to an increase in sales in the light management market with sales in the eye protection remaining relatively constant, partially offset by a continuing decrease in sales in the ink and coating market.

Categorized by geographic area, sales in the United States decreased for the nine months ended November 30, 2010 while sales increased in Asia and Europe compared to the prior year period. For the nine months ended November

30, 2010 compared to the prior year period, sales decreased in the United States to \$1,600,000 from \$1,869,000, while in Asia sales increased to \$334,000 from \$161,000, and in Europe sales increased to \$346,000 from \$206,000.

Gross Profit

Gross profit, defined as sales less cost of sales, was \$372,000 or 46.4% of sales for the three months ended November 30, 2010 compared to \$461,000 or 56.7% of sales for the three months ended November 30, 2009. For the nine months ended November 30, 2010, gross profit was \$1,107,000 or 48.5% of sales compared to \$1,290,000 or 57.6% of sales for the nine months ended November 30, 2009. In terms of absolute dollars, gross profit decreased \$89,000 for the three months ended November 30, 2010 compared to the prior year period, and decreased \$183,000 for the nine months ended November 30, 2010 compared to the nine months ended November 30, 2009.

Cost of sales was \$430,000 for the three months ended November 30, 2010 which represented 53.6% of sales compared to \$345,000 for the three months ended November 30, 2009 which represented 42.8% of sales. For the nine months ended November 30, 2010, cost of sales was \$1,177,000 which represented 51.5% of sales compared to \$951,000 which represented 42.4% of sales for the nine months ended November 30, 2009.

Selling, General and Administrative Expenses

Selling, general and administrative expenses increased to \$433,000 for the three months ended November 30, 2010 compared to \$262,000 for the three months ended November 30, 2009, an increase of \$171,000, while selling, general and administrative expenses increased to \$1,057,000 for the nine months ended November 30, 2010 from \$815,000 for the nine months ended November 30, 2009, an increase of \$242,000. For the three and nine months ended November 30, 2010 compared to the prior year periods, in terms of absolute dollars, the increase was primarily due to a substantial increase in professional fees, primarily due to services not regularly incurred in connection with the strategic alternatives being pursued by the Company as previously disclosed and described below. As a percentage of sales, selling, general and administrative expenses were 54.0% of sales for the three months ended November 30, 2010 compared to 32.5% of sales for the three months ended November 30, 2009, while for the nine months ended November 30, 2010, selling, general and administrative expenses were 46.3% of sales compared to 36.4% of sales for the nine months ended November 30, 2009.

Operating Income (Loss)

The Company suffered an operating loss of \$61,000 for the three months ended November 30, 2010 compared to operating income of \$199,000 for the three months ended November 30, 2009, a decrease of \$260,000. Operating income was \$50,000 for the nine months ended November 30, 2010 compared to \$475,000 for the nine months ended November 30, 2009, a decrease of \$425,000. While there was not a significant change in total sales from period to period, cost of sales and selling, general and administrative expenses increased in both the three and nine months ended November 30, 2010 compared to the prior year periods. As a percentage of sales, operating income was 2.2% of sales for the nine months ended November 30, 2010 compared to 21.2% of sales for the nine months ended November 30, 2009.

Other Income

Total other income was \$2,000 and \$8,000 for the three and nine months ended November 30, 2010 compared to \$6,000 and \$25,000 for the three and nine months ended November 30, 2009. We had no rental income for the three and nine months ended November 30, 2010 compared to \$0 and \$4,000 for the three and nine months ended November 30, 2009. In May 2009, our subtenant abandoned the premises which it had been subleasing since September 2005. Our interest income was \$2,000 and \$8,000 for the three and nine months ended November 30, 2010 compared to \$6,000 and \$21,000 for the prior year periods.

Net Income

During the three months ended November 30, 2010, we reported a loss before taxes of \$58,000 as compared to income before taxes of \$204,000 for the three months ended November 30, 2009, a decrease of \$262,000. During the nine months ended November 30, 2010, we reported income before taxes of \$58,000 as compared to income before taxes of \$500,000 for the nine months ended November 30, 2009, a decrease of \$442,000. Income taxes were \$(19,130) and \$18,000 for the three and nine months ended November 30, 2010 while income taxes were \$77,000 and \$186,000 for the comparable periods of 2009. We had a net loss after taxes of \$39,000 or \$0.00 per share for the three months ended

November 30, 2010 as compared to net income after taxes of \$127,000 or \$0.01 per share for the three months ended November 30, 2009. For the nine months ended November 30, 2010, net income after taxes was \$40,000 or \$0.00 per share as compared to net income after taxes of \$314,000 or \$0.03 per share for the nine months ended November 30, 2009. As a percentage of sales, net income after taxes was 1.8% of sales for the nine months ended November 30, 2010 compared to 14.0% of sales for the nine months ended November 30, 2009.

Net income in the future will be dependent upon our ability to maintain revenues in excess of our cost of sales and other expenses. Prior to fiscal 2007, sales had grown for a number of consecutive years. However, we have now had four consecutive years of decreased sales compared to sales in the immediate prior year. One positive sign, however, is that net income did improve by \$142,000 in fiscal 2010 compared to the prior year. This favorably compares to net income in fiscal 2009 compared to fiscal 2008 in which net income decreased by \$396,000. However, in the first nine months of fiscal 2011, while total sales have remained relatively constant increasing by \$43,000 compared to the prior year period, net income decreased by \$274,000 in the first nine months of fiscal 2011 compared to the first nine months of fiscal 2010.

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. Nevertheless, we have not since then been able to achieve comparable sales levels as achieved in fiscal 2006. Beginning in fiscal 2007, sales have decreased from year to year with fiscal 2009 being the year with the most dramatic change in sales compared to the immediate prior year. While sales continued to decrease in fiscal 2010 compared to fiscal 2009, such decrease was not nearly as dramatic as the change between fiscal 2008 and 2009. During fiscal 2010 sales were \$2,945,000 compared to sales of \$3,092,000 for fiscal 2009, a decrease of \$147,000. For the first nine months of fiscal 2011, sales have increased, although modestly, to \$2,284,000 from \$2,241,000 for the first nine months of fiscal 2010. 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 previously disclosed, Millburn Capital Group was retained in February 2009 as the Company's financial advisor in connection with the Board's decision to explore strategic alternatives for the Company, including the potential sale of the Company. The Company continues to pursue such strategic alternatives. There can be no assurance that any such transaction can or will be completed. 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.

In order to facilitate the environmental approvals which will be necessary in conjunction with any potential sale or similar transaction involving the Company, the Company has engaged a licensed site remediation professional and special environmental counsel in the State of New Jersey. Certain environmental testing has been done to date and other testing and other related actions will continue. Such efforts are expected to be costly and may require funds to be placed in escrow or alternative arrangements to be made in order to satisfy State of New Jersey requirements.

The Company maintained a Simplified Employee Pension Plan which was adopted in 1994 for its employees as a retirement and income tax reduction facility. We have recently tested all years of the Plan to insure compliance with Internal Revenue Service regulations and, during the quarter ended August 31, 2010, we received the test results for all years it was in effect. In accordance with the results, we have accrued a contribution to the Plan in the amount of \$284,955 which is reflected in the financial statements included with this report. In August 2010, the Company adopted a 401(k) Plan to replace the Simplified Employee Pension Plan.

Liquidity and Capital Resources

Our primary source of funds is cash flow from operations in the normal course of selling products. On November 30, 2010, we had working capital of \$2,908,000, a debt to equity ratio of 0.12 to 1, and stockholders' equity of \$3,813,000 compared to working capital of \$3,099,000, a debt to equity ratio of 0.06 to 1, and stockholders' equity of \$4,038,000 on February 28, 2010. On November 30, 2010, we had \$2,030,000 in cash and cash equivalents, total assets of \$4,257,000 and total liabilities of \$444,000, compared to \$1,909,000 in cash and cash equivalents, total assets of \$4,299,000 and total liabilities of \$261,000 on February 28, 2010.

Net cash used by operating activities for the nine months ended November 30, 2010 was \$44,000 which was primarily the result of net income of \$40,000, plus decreases in inventories of \$18,000, increases in accounts payable of \$23,000 and accrued expenses of \$354,000, offset by an increase in accounts receivable of \$49,000 and prepaid taxes of \$35,000 and a prior period adjustment for pension contribution of \$263,000 and an adjustment of \$195,000 due to obligations under deferred compensation agreements. The adjustment of \$263,000 represents the liability we have incurred to correct the Simplified Employee Pension Plan as described above. The adjustment of \$195,000 represents the aggregate of the amount paid to the Company's President for the remaining balance due to him under a deferred compensation agreement and an amount paid to the Company's Chairman for a deferred compensation accrual remaining due to him, each of which was paid in the second quarter of fiscal 2011. Net cash provided by operating activities for the nine months ended November 30, 2009 was \$259,000 which was primarily the result of net income of \$314,000, plus a decrease in prepaid taxes of \$227,000, and an increase in taxes payable of \$63,000, offset by increases in accounts receivable of \$176,000 and inventories of \$32,000, and a decrease in accrued expenses of \$237,000.

Net cash provided by investing activities for the nine months ended November 30, 2010 was \$165,000 due to a decrease in cash value of a life insurance policy of \$189,000 (resulting from the surrender of a life insurance policy for its net surrender value maintained in connection with the deferred compensation agreement with the Company's President) offset by payments of plant, property and equipment of \$23,000. Net cash provided by investing activities for the nine months ended November 30, 2009 was \$7,000 due a decrease in cash value of a life insurance policy of \$35,000 offset by payments for property and equipment of \$28,000,

For the nine months ended November 30, 2010 and 2009, there was no net cash from or used by financing activities.

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 2011 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.

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.

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. 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, 2010, 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. No further dividends have been paid since August 2008 primarily due to the Company's 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. There have been no repurchases made by the Company under the repurchase program since the fiscal year ended February 28, 2007. Since the adoption of the program and through the fiscal year ended February 28, 2007, 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, the Principal Executive Officer and Principal Financial Officer have concluded that, as of November 30, 2010, 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 material 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 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.**

Pursuant to the Epolin, Inc. 2008 Stock Incentive Plan, each director shall receive a stock award annually of 25,000 shares of Common Stock. On October 5, 2010, a total of 100,000 shares of Common Stock were granted to the Company's four directors. All of such securities were issued in reliance upon the exemption from registration pursuant to Section 4(2) of the Securities Act of 1933, as amended, for "transactions by the issuer not involving any public offering".

Item 3. **Defaults Upon Senior Securities.**

None.

Item 4. **[Removed and Reserved.]**

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: January 13, 2011

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

Dated: January 13, 2011

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

EPOLIN, INC. AND SUBSIDIARY
CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
NINE MONTHS ENDED
NOVEMBER 30, 2010 AND 2009

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**EPOLIN, INC. AND SUBSIDIARY
CONSOLIDATED BALANCE SHEETS**

ASSETS

	November 30, 2010 (Unaudited)	February 28, 2010
	<u> </u>	<u> </u>
Current assets:		
Cash and cash equivalents	\$ 2,030,078	1,908,752
Accounts receivable	518,296	469,035
Inventories	665,584	683,995
Prepaid expenses	52,222	55,094
Prepaid taxes	68,810	33,870
Deferred tax assets-current portion	<u>16,398</u>	<u>14,698</u>
 Total current assets	 <u>3,351,388</u>	 <u>3,165,444</u>
 Plant, property and equipment - at cost:		
Land	81,000	81,000
Building and improvements	791,242	770,537
Laboratory equipment	213,242	210,555
Furniture and office equipment	273,863	273,863
Leasehold improvements	<u>532,129</u>	<u>532,131</u>
 Total	 1,891,476	 1,868,086
 Less: Accumulated depreciation and amortization	 <u>1,058,264</u>	 <u>1,008,372</u>
 Net plant, property and equipment	 <u>833,212</u>	 <u>859,714</u>
 Other assets:		
Deferred tax assets-non current portion	72,260	85,460
Cash value - life insurance policy	<u>-</u>	<u>188,641</u>
 Total other assets	 <u>72,260</u>	 <u>274,101</u>
 Total	 <u>\$ 4,256,860</u>	 <u>4,299,259</u>

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

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

LIABILITIES AND STOCKHOLDERS' EQUITY

	November 30, 2010 (Unaudited)	February 28, 2010
Current liabilities:		
Accounts payable	\$ 39,796	16,777
Accrued expenses	401,599	47,145
Taxes payable:		
Payroll	2,208	2,208
Total current liabilities	443,603	66,130
Other liabilities - Deferred compensation	-	195,082
Total liabilities	443,603	261,212
Commitments and Contingencies		
Stockholders' equity:		
Preferred stock, \$2.50 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; 13,215,000 and 13,115,000 shares issued, and 12,266,355 and 12,166,355 shares outstanding at November 30, 2010 and February 28, 2010, respectively	2,364,693	2,364,693
Additional paid-in capital	123,125	124,820
Retained earnings	1,676,521	1,899,616
Total	4,164,339	4,389,129
Less: Treasury stock - at cost	351,082	351,082
Total stockholders' equity	3,813,257	4,038,047
Total	\$ 4,256,860	4,299,259

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

EPOLIN, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF INCOME (Unaudited)
NINE MONTHS ENDED NOVEMBER 30, 2010 AND 2009

	<u>2010</u>	<u>2009</u>
Sales	\$ 2,283,900	2,240,660
Cost of sales and expenses:		
Cost of sales	1,177,317	951,132
Selling, general and administrative	<u>1,056,547</u>	<u>814,658</u>
Total	<u>2,233,864</u>	<u>1,765,790</u>
Operating income	<u>50,036</u>	<u>474,870</u>
Other income:		
Rental income	-	4,500
Interest	<u>7,977</u>	<u>20,517</u>
Total	<u>7,977</u>	<u>25,017</u>
Income before taxes	58,013	499,887
Income taxes	<u>18,041</u>	<u>185,533</u>
Net income	<u>\$ 39,972</u>	<u>314,354</u>
Per share data:		
Basic earnings per common share	<u>\$ -</u>	<u>0.03</u>
Fully diluted earnings per common share	<u>\$ -</u>	<u>0.03</u>
Weighted average number of common shares outstanding	<u>12,185,992</u>	<u>12,080,847</u>
Fully diluted number of common shares outstanding	<u>12,203,092</u>	<u>12,083,747</u>

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

EPOLIN, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF INCOME (Unaudited)
THREE MONTHS ENDED NOVEMBER 30, 2010 AND 2009

	<u>2010</u>	<u>2009</u>
Sales	\$ <u>802,397</u>	<u>805,913</u>
Cost of sales and expenses:		
Cost of sales	430,135	344,939
Selling, general and administrative	<u>432,792</u>	<u>262,402</u>
Total	<u>862,927</u>	<u>607,341</u>
Operating income (loss)	<u>(60,530)</u>	<u>198,572</u>
Other income:		
Interest	<u>2,283</u>	<u>5,893</u>
Total	<u>2,283</u>	<u>5,893</u>
Income (loss) before taxes	(58,247)	204,465
Income taxes	<u>(19,130)</u>	<u>77,457</u>
Net income (loss)	<u>\$ (39,117)</u>	<u>127,008</u>
Per share data:		
Basic earnings per common share	<u>\$ -</u>	<u>0.01</u>
Fully diluted earnings per common share	<u>\$ -</u>	<u>0.01</u>
Weighted average number of common shares outstanding	<u>12,239,589</u>	<u>12,109,834</u>
Fully diluted number of common shares outstanding	<u>12,239,589</u>	<u>12,112,734</u>

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

EPOLIN, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (Unaudited)
NINE MONTHS ENDED NOVEMBER 30, 2010 AND 2009

	<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>
Balance - March 1, 2009	13,015,000	\$ 2,364,693	104,820	1,430,546	948,645	(351,082)	3,548,977
Stock-based compensation	100,000	-	20,000	-	-	-	20,000
Net income	-	-	-	314,354	-	-	314,354
Balance - November 30, 2009	<u>13,115,000</u>	<u>\$ 2,364,693</u>	<u>124,820</u>	<u>1,744,900</u>	<u>948,645</u>	<u>(351,082)</u>	<u>3,883,331</u>
Balance - March 1, 2010	13,115,000	\$ 2,364,693	124,820	1,899,616	948,645	(351,082)	4,038,047
Prior period adjustment - pension contribution	-	-	-	(263,067)	-	-	(263,067)
Stock-based compensation	100,000	-	(1,695)	-	-	-	(1,695)
Net income	-	-	-	39,972	-	-	39,972
Balance - November 30, 2010	<u>13,215,000</u>	<u>\$ 2,364,693</u>	<u>123,125</u>	<u>1,676,521</u>	<u>948,645</u>	<u>(351,082)</u>	<u>3,813,257</u>

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

EPOLIN, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)
NINE MONTHS ENDED NOVEMBER 30, 2010 AND 2009

	2010	2009
Cash flows from operating activities:		
Net income	\$ 39,972	314,354
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	49,892	75,900
Prior period adjustment - pension contribution	(263,067)	-
Stock based compensation	(1,695)	20,000
Deferred tax expense	11,500	(7,967)
Obligation under deferred compensation agreement	(195,082)	4,271
(Increase) decrease in:		
Accounts receivable	(49,261)	(175,995)
Inventories	18,411	(31,798)
Prepaid expenses	2,872	(2,331)
Prepaid taxes	(34,940)	227,246
Increase (decrease) in:		
Accounts payable	23,019	9,331
Taxes payable	-	62,900
Accrued expenses	354,454	(237,256)
	<u>(43,925)</u>	<u>258,655</u>
Cash flows from investing activities:		
(Increase) decrease in cash value - life insurance policy	188,641	35,009
Payments for plant, property and equipment	(23,390)	(27,575)
	<u>165,251</u>	<u>7,434</u>
Increase in cash	121,326	266,089
Cash and cash equivalents:		
Beginning	<u>1,908,752</u>	<u>1,544,966</u>
Ending	<u>\$ 2,030,078</u>	<u>1,811,055</u>
Supplemental disclosures of cash flows:		
Income taxes paid	<u>\$ 70,500</u>	<u>129,700</u>

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:

We are 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.

Our 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, we acquired 100% of the stock in Epolin Holding Corporation. Prior to acquisition, two officers/stockholders 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 our Annual Report on Form 10-K for the fiscal year ended February 28, 2010. Such interim Consolidated Financial Statements reflect all normal and recurring adjustments that, in the opinion of management, are necessary for a fair presentation of our financial position, results of operations and cash flows for the periods presented. All significant intercompany accounts and transactions have been eliminated.

The results of operations for the nine-month interim period ended November 30, 2010 and 2009 are not necessarily indicative of the results of operations for the fiscal year ending February 28, 2011.

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 – We have 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, we periodically evaluate the stability of the financial institution and brokerage house.

Financial instruments, which potentially subject us to concentrations of credit risk, consist principally of accounts receivable. Generally, we do not require collateral or other securities to support its accounts receivable. Three customers represented 33.9% of our trade receivables at November 30, 2010.

Source of Raw Materials – We purchase chemicals from several large chemical manufacturers, further processing them into its saleable products. Although we limit ourselves 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

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

Principles of Consolidation - The accompanying Consolidated Financial Statements include the accounts of the Company and Subsidiary. Inter-company transactions and balances have been eliminated in consolidation. Condensed Consolidating Financial Statements as of November 30, 2010 and for the nine months then ended are:

CONDENSED CONSOLIDATING BALANCE SHEET

	Epolin Inc.	Epolin Holding, Corp.	Eliminations	Consolidated
Current assets	\$ 2,850,443	500,945	-	3,351,388
Non-current assets	1,406,417	642,816	(1,143,761)	905,472
Total	<u>\$ 4,256,860</u>	<u>1,143,761</u>	<u>(1,143,761)</u>	<u>4,256,860</u>
Total liabilities	\$ 443,603	24,435	(24,435)	443,603
Stockholders' equity:				
Common stock	2,364,693	-	-	2,364,693
Additional paid-in capital	123,125	-	-	123,125
Retained earnings	1,676,521	1,119,326	(1,119,326)	1,676,521
Treasury stock	(351,082)	-	-	(351,082)
Total stockholders' equity	<u>3,813,257</u>	<u>1,119,326</u>	<u>(1,119,326)</u>	<u>3,813,257</u>
Total	<u>\$ 4,256,860</u>	<u>1,143,761</u>	<u>(1,143,761)</u>	<u>4,256,860</u>

CONDENSED CONSOLIDATING STATEMENT OF INCOME

	Epolin Inc.	Epolin Holding, Corp.	Eliminations	Consolidated
Sales	\$ 2,283,900	-	-	2,283,900
Rental income	-	73,305	(73,305)	-
Total	<u>2,283,900</u>	<u>73,305</u>	<u>(73,305)</u>	<u>2,283,900</u>
Cost of sales	1,177,317	-	-	1,177,317
Selling, general and administrative	1,106,175	23,677	(73,305)	1,056,547
Total	<u>2,283,492</u>	<u>23,677</u>	<u>(73,305)</u>	<u>2,233,864</u>
Operating income	408	49,628	-	50,036
Other income - interest	6,415	1,562	-	7,977
Income before taxes	6,823	51,190	-	58,013
Income taxes	13,559	4,482	-	18,041
Net income	<u>\$ (6,736)</u>	<u>46,708</u>	<u>-</u>	<u>39,972</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 our plant, property and equipment are as follows:

		<u>Estimated Years</u>
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 \$49,892 and \$75,900 for the nine months ended November 30, 2010 and 2009, respectively.

Income Taxes – We account 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 we recognize in our 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. We 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 our financial statements for fiscal year ended 2010. As of November 30, 2010 and 2009, we did not record any unrecognized tax benefits. Our 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 our 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. We base our 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 – 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 are in nonconformity with 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. Replacement costs are expensed as incurred.

Regulations – We have expended approximately \$57,412 and \$33,669 through November 30, 2010 and 2009, respectively, to maintain compliance with certain Federal, 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.

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.

Advertising Costs – Advertising costs, included in operating expenses, are expensed as incurred. Advertising expenses amounted to \$22,180 and \$13,096 for the nine months ended November 30, 2010 and 2009, 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, 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 its 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.

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 nine months ended November 30, 2010 and 2009 was \$.32 and \$.49, 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:

	November 30,	
	2010	2009
Weighted average expected life in years	3	2
Volatility	7.0%	7.0%
Risk-free interest rate	3.2%	2.8%

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, 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. The adoption of FAS 157 for financial assets and liabilities did not have an impact on our 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, 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 November 30, 2010, 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.

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

NOTE C – Income Taxes:

1. Federal and State deferred tax assets include:

	<u>November 30,</u>	
	<u>2010</u>	<u>2009</u>
Temporary differences:		
Accelerated amortization	\$ 11,173	8,761
Deferred compensation	61,431	97,033
Stock-based compensation	<u>16,054</u>	<u>16,054</u>
Total	88,658	121,848
Less: Current portion	<u>16,398</u>	<u>11,804</u>
Non-current portion	<u>\$72,260</u>	<u>110,044</u>

2. Income tax:

	<u>November 30,</u>	
	<u>2010</u>	<u>2009</u>
Current:		
Federal	\$0	150,200
State	<u>6,541</u>	<u>43,300</u>
Total current	<u>6,541</u>	<u>193,500</u>
Deferred:		
Federal	8,900	(8,590)
State	<u>2,600</u>	<u>623</u>
Total deferred	<u>11,500</u>	<u>(7,967)</u>
Total	<u>\$18,041</u>	<u>185,533</u>

NOTE D – Treasury Stock:

Consists of 948,645 shares at a net cost of \$351,082 as of November 30, 2010 and February 28, 2010, respectively. There were no purchases of treasury shares made during the nine months ended November 30, 2010 and 2009, respectively.

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

NOTE E – Economic Dependency:

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 nine months ended November 30, 2010, approximately 27.9% of sales were to three customers. During the nine months ended November 30, 2009, approximately 38.0% of sales were to three customers.

NOTE F – Rental Income Under Sublease:

We 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. On May 31, 2009, the tenant abandoned the property.

NOTE G – Research and Development:

We have developed substantial research and development capability. Our 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 our sponsored product research and product development of \$289,785 and \$293,030 were included in cost of sales for the nine months ended November 30, 2010 and 2009, respectively. Expenditures for the fiscal year ended 2011 are projected to remain at approximately the same level as in fiscal 2010.

NOTE H – Employee Benefits:

Simplified Employee Pension Plan – Effective June 1, 1994, we provide a SAR/SEP plan to our 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. We make contributions ranging from three to five percent. Employer contributions totaled \$53,573 and \$34,586 for the nine months ended November 30, 2010 and 2009, respectively. The plan has not met the requirements of Section 416 and Section 408(k) (6) regarding contribution limits and employee deferral amounts. We have tested all years of the plan to insure our compliance with Internal Revenue Service regulations. In accordance with the results, we have accrued a contribution to the plan in the amount of \$284,955. See Note P - Prior Period Adjustment.

401K Plan – Effective August 20, 2010, we provide a 401K plan to our employees as a retirement and income tax reduction facility. Full time employees are eligible to participate after completing one year of eligibility service. Employees may make pre-tax and after-tax contributions subject to Internal Revenue Service limitations. We make contributions ranging from three to five percent. Employer contributions totaled \$7,314 for the nine months ended November 30, 2010.

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

NOTE H – Employee Benefits (continued):

Stock Option Plan – We adopted the 1998 Stock Option Plan on December 1, 1998. Under the terms of the plan, we have 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 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 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 November 30, 2010, options granted totaled 1,242,000, options exercised totaled 686,000; options cancelled or expired for all years totaled 461,000.

A summary of the status of our 1998 stock option plan as of November 30, 2010, and the changes during the nine months ended November 30, 2010 and 2009 is presented below:

<u>Fixed Options:</u>	<u>Shares</u>	<u>Weighted-Average Exercise Price</u>
Balance – February 28, 2010	<u>245,000</u>	\$.49
Options cancelled	<u>150,000</u>	
Balance – November 30, 2010	<u>95,000</u>	\$.32
Exercisable at November 30, 2010	<u>95,000</u>	\$.32

Stock Option Plans - The following table summarizes information about fixed stock options outstanding at November 30, 2010:

<u>Outstanding Options</u>			<u>Exercisable Options</u>	
<u>Range of Exercise Price</u>	<u>Number Outstanding at 11/30/10</u>	<u>Weighted-Average Remaining Contractual Life</u>	<u>Number Exercisable at 11/30/10</u>	<u>Weighted-Average Exercise Price</u>
\$.41	95,000	3.2	95,000	.32

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

NOTE H – Employee Benefits (continued):

Stock Option and Stock-Based Compensation Plan - On June 18, 2008, our 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, we 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 terminated, and we 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. As of November 30, 2010, 300,000 shares of Common Stock have been granted and 1,200,000 shares remain to be granted.

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

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 each year, commencing September 1, 2008, each person who serves as a Director during the current year shall automatically receive a stock award of 25,000 shares of Common Stock. The dollar value of the shares of Common Stock granted each year is calculated based upon the fair market value of our Common Stock at the date of grant. Stock-based compensation in the amount of \$20,000 was charged to selling, general and administrative expenses for the nine months ended November 30, 2010 and 2009 respectively.

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

NOTE I – Segment Reporting:

We currently operate in a single operating segment. In addition, financial results are prepared and reviewed by management as a single operating segment. We continually evaluate our 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:

	Nine Months Ended	
	November 30,	
	<u>2010</u>	<u>2009</u>
United States	\$ 1,600,489	1,869,034
Asia	333,549	161,395
Europe	345,714	205,576
Other nations	<u>4,148</u>	<u>4,655</u>
 Total	 <u>\$ 2,283,900</u>	 <u>2,240,660</u>

Two customers, located in the United States, accounted for more than 10% of revenues from continuing operations. These customers accounted for 21.9% of sales of infrared dies.

Long-lived assets include net plant, property and equipment. We had long-lived assets of \$833,212 and \$859,714 located in the United States at November 30, 2010 and February 28, 2010, respectively.

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

NOTE J - Accrued Expenses:

Accrued expenses consisted of the following as of November 30, 2010 and February 28, 2010, respectively:

	November 30, 2010	February 28, 2010
Salaries and wages	\$ 26,368	-
Purchases	3,149	3,455
Pension contribution	292,270	-
Commissions	20,667	10,545
Rent	8,145	8,145
Professional fees	<u>51,000</u>	<u>25,000</u>
Total accrued expenses	<u>\$ 401,599</u>	<u>47,145</u>

NOTE K - Inventories:

	November 30, 2010	February 28, 2010
Raw materials and supplies	\$ 169,570	160,387
Work in process	126,902	92,421
Finished goods	<u>369,112</u>	<u>431,187</u>
Total	<u>\$ 665,584</u>	<u>683,995</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:

	Three Months Ended November 30,		Nine Months Ended November 30,	
	2010	2009	2010	2009
Basic Earnings Per Common Share:				
Net income (loss)	<u>(39,117)</u>	<u>127,008</u>	<u>39,972</u>	<u>314,354</u>
Average common shares outstanding	<u>12,239,589</u>	<u>12,109,834</u>	<u>12,185,992</u>	<u>12,080,847</u>
Basic earnings per common share	<u>-</u>	<u>0.01</u>	<u>-</u>	<u>0.03</u>
Diluted Earnings Per Common Share:				
Net income	<u>(39,117)</u>	<u>127,008</u>	<u>39,972</u>	<u>314,354</u>
Average common shares outstanding	12,239,589	12,109,834	12,185,992	12,080,847
Common shares issuable with respect to options issued to employees with a dilutive effect	<u>-</u>	<u>2,900</u>	<u>17,100</u>	<u>2,900</u>
Total diluted common shares outstanding	<u>12,239,589</u>	<u>12,112,734</u>	<u>12,203,092</u>	<u>12,083,747</u>
Diluted earnings per common share	<u>-</u>	<u>0.01</u>	<u>-</u>	<u>0.03</u>

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.

Simplified Employee Pension Plan – Our SAR/SEP plan has failed to meet certain tests as required by Internal Revenue Service codes regarding contribution limits and employee deferral amounts. We have tested all years of the plan to insure our compliance with Internal Revenue Service regulations. In accordance with the results, we have accrued a contribution to the plan in the amount of \$284,955. See Note P - Prior Period Adjustment.

Lease Obligations - We lease our real estate under an operating lease with a related party. The lease effective November 1, 1996 was for a term of five years with three five 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 \$73,305 for the nine months ended November 30, 2010 and 2009, respectively.

Future minimum payments for the current option period:

<u>Fiscal Years Ending February:</u>	
2011	\$24,435
2012	97,740
2013	97,740
2014	97,740
2015	97,740

Deferred Compensation – On December 29, 1995, we 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 May 14, 2010, the Board of Directors agreed to surrender the life insurance policy. The remaining balance of \$128,000 was paid during the current quarter ended November 30, 2010.

On January 1, 1996, we 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. On May 14, 2010, the Board of Directors agreed to pay the balance due during the current year. This balance was paid during the current quarter ended November 30, 2010.

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

NOTE N - Fair Value Measurements:

Effective March 1, 2008, we 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>November 30, 2010</u>		<u>February 28, 2010</u>	
	<u>Carrying Amount</u>	<u>Fair Value</u>	<u>Carrying Amount</u>	<u>Fair Value</u>
<u>Assets:</u>				
Cash and cash equivalents	\$2,030,078	2,030,078	1,908,752	1,908,752
Other assets:				
Cash value – life insurance	_____ -	_____ -	<u>188,641</u>	<u>188,641</u>
Total assets at fair value	<u>\$2,030,078</u>	<u>2,030,078</u>	<u>2,097,393</u>	<u>2,097,393</u>
<u>Liabilities:</u>				
Deferred compensation	\$ _____ -	_____ -	<u>195,082</u>	<u>195,082</u>

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

NOTE O – Environmental Matters

Our 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 do we expect such compliance to have, any material effect upon expected capital expenditures, net income, financial condition, or competitive position. We have engaged a licensed site remediation professional and special environmental counsel in order to facilitate the environmental approvals which will be necessary in conjunction with any potential sale or similar transaction of our company. We believe that our current practices and procedures comply with applicable regulations. Our 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.

NOTE P – Prior Period Adjustment

During the quarter ended August 31, 2010, we received the test results of our Simplified Employee Pension Plan for all years it was in effect. The liability we have incurred to correct the plan in the amount of \$263,067 is presented in the financial statements as an increase in accrued expenses and a corresponding reduction to retained earnings.

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: January 13, 2011

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: January 13, 2011

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 November 30, 2010, 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: January 13, 2011

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

Dated: January 13, 2011

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