
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-QSB

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

For the quarterly period ended May 31, 2006

TRANSITION REPORT UNDER 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 Small Business Issuer as Specified in its Charter)

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

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

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

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

Check whether the Issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the Issuer 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 equity, as of the latest practicable date:

Common, no par value per share: 11,966,355 outstanding as of July 1, 2006

PART I - FINANCIAL INFORMATION

Item 1. **Financial Statements.**

See the Consolidated Financial Statements annexed to this report.

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

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

Forward-Looking Statements

This report contains certain forward-looking statements and information relating to the Company that are based on the beliefs and assumptions made by the Company's management as well as information currently available to the management. When used in this document, the words "anticipate", "believe", "estimate", and "expect" and similar expressions, are intended to identify forward-looking statements. Such statements reflect the current views of the Company with respect to future events and are subject to certain risks, uncertainties and assumptions. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those described herein as anticipated, believed, estimated or expected. Certain of these risks and uncertainties are discussed under the caption "Uncertainties and Risk Factors" in Part I, Item 1 "Description of Business" of the Company's Form 10-KSB for the year ended February 28, 2006. The Company does not intend to update these forward-looking statements.

Executive Overview

Epolin, Inc. (the "Company") is a specialized chemical company primarily engaged in the manufacturing, marketing, research and development of infrared dyes, laser absorbing dyes and infrared 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. We also manufacture specialty chemicals for certain chemical manufacturers.

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

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. As the service economy continues to dwarf the manufacturing sector in the United States, we anticipate that our products will be increasingly used by manufacturers located abroad. During the three months ended May 31, 2006, approximately 40.6% of sales were to three customers. Two of these customers, located in the Eastern United States, accounted for 29.6% of sales. During the three months ended May 31, 2005, approximately 44.1% of sales were to three customers. Two of these customers, located in the Eastern United States, accounted for 39.0% of sales. The loss of one or more key customers could have a material adverse effect on the Company.

Results of Operations

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

Three Months Ended

	May 31, <u>2006</u>	May 31, <u>2005</u>
Sales	100%	100%
Cost of sales	<u>40.1</u>	<u>43.4</u>
Gross Profit	59.9	56.6
Selling, general and administrative	<u>27.1</u>	<u>31.1</u>
Operating Income	32.8	25.5
Income before taxes	33.7	26.4
Net income (after taxes)	20.6	17.1

Sales

Sales increased to \$1,094,000 for the three months ended May 31, 2006 from \$806,000 for the three months ended May 31, 2005, an increase of \$288,000 or 35.7%. During fiscal 2006 and continuing through the first quarter of fiscal 2007, we experienced strong increases in sales in our newer product areas, such as our newer security inks and coatings products. While sales overseas remained relatively stagnant for the quarter ended May 31, 2006 compared to the quarter ended May 31, 2005, sales in the United States for the three months ended May 31, 2006 increased \$337,000 compared to the prior year period.

Beginning in fiscal 2006, we began to place greater emphasis on technical service as mentioned above which has resulted in sales to customers who have not used our products before as well as new uses of such dye products by regular customers. We have also increased our sales in dyes for the newer security inks products which is an area we expect to achieve strong growth.

Gross Profit

Gross profit, defined as sales less cost of sales, was \$655,000 or 59.9% of sales for the three months ended May 31, 2006 compared to \$457,000 or 56.6% of sales for the three months ended May 31, 2005. In terms of absolute dollars, gross profit increased \$198,000. As a percentage of sales, gross profit increased 3.3% due primarily to a decrease in factory overhead of 4.3% and a slight increase in material costs of 1.0%.

Cost of sales was \$439,000 for the three months ended May 31, 2006 which represented 40.1% of sales compared to \$350,000 for the three months ended May 31, 2005 which represented 43.4% of sales. The total cost of materials increased \$49,000 in the quarter ended May 31, 2006 compared to the prior year period. Total factory overhead also increased \$41,000 in the quarter ended May 31, 2006 compared to the prior year period primarily due to increases in research and development salaries, and increases in applied factory overhead.

Selling, General and Administrative Expenses

Selling, general and administrative expenses increased to \$296,000, or 27.1% of sales, for the three months ended May 31, 2006 from \$251,000, or 31.1% of sales, for the three months ended May 31, 2005, an increase of \$45,000. As a percentage of sales, however, selling, general and administrative expenses decreased 4.0% for the three months ended May 31, 2006 compared to the three months ended May 31, 2005. Such increase in absolute dollars in selling, general and administrative expenses for the quarter ended May 31, 2006 compared to the prior year period was primarily due to increases in officer salaries and employee benefits, together with increases in consulting fees, offset by decreases in commission expenses. We recently restructured a certain commission relationship which we have historically maintained which has reduced our commission expenses.

Operating Income

Operating income, in terms of absolute dollars, increased to \$359,000 for the three months ended May 31, 2006 from \$206,000 for the prior year period, an increase of \$153,000. As a percentage of sales, operating income increased

to 32.8% of sales for the three months ended May 31, 2006 from 25.5% of sales for the three months ended May 31, 2005. This change was primarily due to increased sales for the period, together with decreases achieved, in terms of a percentage of sales, in cost of sales, and selling, general and administrative expenses as described above.

Other Income

Total other income for the three months ended May 31, 2006, was \$10,000 as compared to \$7,000 for the three months ended May 31, 2005. The Company realized \$4,500 in rental income for the three months ended May 31, 2006 compared to rental income of \$3,000 for the three months ended May 31, 2005. Effective November 1, 2002 and through August 2005, we subleased approximately 2,500 square feet of our office space to a non-related party to operate an optics and security inks laboratory at an annual rental of \$36,000. Commencing as of September 2005, new arrangements have been agreed upon for such space with a different non-related party to operate a laboratory at an annual rental of \$18,000. During the quarter ended May 31, 2005, the previous tenant was behind in its rental payments which late payments were made subsequent to May 31, 2005. Our interest income increased to \$6,000 for the three months ended May 31, 2006 from \$4,000 for the three months ended May 31, 2005.

Net Income

During the three months ended May 31, 2006, we reported income before taxes of \$369,000 as compared to income before taxes of \$213,000 for the three months ended May 31, 2005. Income taxes were \$143,000 for the three months ended May 31, 2006, compared to \$75,000 for the three months ended May 31, 2005. The increase in income taxes was generally attributed to changes from period to period in sales and expenses. Net income after taxes was \$226,000 or \$0.02 per share for the three months ended May 31, 2006 as compared to net income after taxes of \$138,000 or \$0.01 per share for the three months ended May 31, 2005. The increase in net income after taxes for the quarter ended May 31, 2006 compared to the prior year period was primarily due to increases in sales, together with decreases achieved, in terms of a percentage of sales, in cost of sales and selling, general and administrative expenses.

Net income in the future will be dependent upon our ability to increase revenues faster than we increase our selling, general and administrative expenses, research and development expenses and other expenses. Although we achieved an increase of \$821,000 in sales for fiscal 2006 compared to fiscal 2005, and an increase of \$288,000 in sales for the first quarter of fiscal 2007 compared to the first quarter of fiscal 2006, we have also incurred, in dollars, greater cost of sales and selling, general and administrative expenses in these periods. Certain of these expenses are due to costs and expenses related to a greater emphasis being placed on marketing, sales and technical service. This meant hiring new staff, consultants, continuing efforts to upgrade our facility and developing a new web site. We are encouraged, however, by the growth in our overall sales in fiscal 2006 (which was the largest annual rate of growth we have achieved since our prior growth period from 1992 to 2002) which growth has continued into fiscal 2007.

Operations Outlook

Since fiscal 2005, we have been going through a period of reassessing our direction in order to increase value for our shareholders. Our business, though reasonably healthy, did not grow to the degree management anticipated from 2002 to 2005. While the sales level of \$2,880,000 reached during fiscal 2005 was at the time an all time high for the Company, it was not significantly more than the sales level we achieved in 2004 (\$2,734,000), 2003 (\$2,690,000) or 2002 (\$2,550,000). The plateau of sales during that four years was in contrast to the greater sales growth the Company experienced prior to 2002 and beginning in 1991. Based upon these observations, we tried to learn what could be done to stimulate growth and recapture the promise of our early years. As a result, we assembled a business plan and began to make changes consistent with such plan. The plan showed us that developments coming out of our R&D were not reaching the marketplace and therefore, not commanding their proper attention. Through this teamwork of R&D with marketing, we revamped our web site, streamlined our pricing structure and reached out to our key customers and agents. We believe the business plan made clear the necessity of hiring a Sales/Marketing executive along with back up technical service help, both of which have been accomplished. In order to cover the cost of these additional personnel and place a greater emphasis on company growth, we suspended in fiscal 2005 the cash dividends program which we had been in place during fiscal 2002, 2003 and 2004 in order to place greater emphasis on business growth. With the increase that we achieved in sales in fiscal 2006 of \$3,701,000 which was \$821,000 greater than the prior year, and the increase in sales in the first three months of fiscal 2007 which was \$288,000 greater than the prior year, we are confident that we will be able to successfully accomplish our long term goals.

Another factor that was considered in the business plan was management succession. Murray S. Cohen, the Company's Chairman of the Board and our long-time Chief Executive Officer, previously announced his intention to step down as Chief Executive Officer, while continuing to remain as Chairman of the Board and Chief Scientist for the Company. As of January 10, 2006, Dr. Cohen did step down as CEO, and Greg Amato, who has been our Vice President of Sales and Marketing, was appointed to fill this position. Mr. Amato has been employed by the Company since November 2004 and had been Vice President of Sales and Marketing since January 2005.

Liquidity and Capital Resources

Our primary source of funds is cash flow from operations in the normal course of selling products. On May 31, 2006, we had working capital \$2,595,000, a debt to equity ratio of 0.22 to 1, and stockholders' equity of \$3,490,000 compared to working capital of \$2,412,000, a debt to equity ratio of 0.14 to 1, and stockholders' equity of \$3,237,000 on May 31, 2005. On May 31, 2006, we had \$1,733,000 in cash and cash equivalents, total assets of \$4,262,000 and total liabilities of \$771,000, compared to \$1,370,000 in cash and cash equivalents, total assets of \$3,696,000 and total liabilities of \$459,000 on May 31, 2005.

Net cash provided by operating activities for the three months ended May 31, 2006 was \$475,000 compared to \$224,000 for the three months ended May 31, 2005 which change was primarily due to an increase in net income together with decreases in accounts receivable and prepaid expenses and increases in accounts payable, taxes payable and accrued expenses offset by an increase in inventories. Net cash used by investing activities for the three months ended May 31, 2006 was \$23,000 compared to \$86,000 for the three months ended May 31, 2005 which change was primarily due to a decrease in equipment purchases. For the three months ended May 31, 2006, net cash used by financing activities was \$236,000 compared to \$0 for the three months ended May 31, 2005. Such change was primarily due to the payment of the dividend in the quarter ended May 31, 2006 for which there was not a comparable item in the quarter ended May 31, 2005.

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 fiscal 2007 and beyond will depend primarily upon level of sales of our products, inventory levels, product development, sales and marketing expenditures and capital expenditures. While we believe the Company has remained strong in the sale of dyes in our traditional markets of welding and eye protection, such sales did not increase in volume in the past few complete fiscal years. As a result, we have begun to place a greater emphasis on sales, marketing and technical support in order to grow our dye business and our newer business in security inks and coatings which we expect to contribute meaningful growth to the Company.

Inflation has not significantly impacted 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 – We have adopted disclosure-only provisions of SFAS No. 123 "Accounting for Stock-Based Compensation," and SFAS No. 148, "Accounting for Stock-Based Compensation – Transition and Disclosure - an Amendment of FASB Statement No. 123." Compensation cost for stock options, if any, is measured as the excess of the quoted market price of the stock at the date of grant over the amount an employee must pay to acquire the stock.

In December 2004, the FASB issued Statement of Financial Accounting Standards ("SFAS") No. 123(R), "Share-Based Payment". SFAS 123R revises SFAS No. 123 and supersedes APB 25 to require 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. That cost will be recognized over the vesting period during which an employee is required to provide service in exchange for the award. On April 14, 2005, the Securities and Exchange Commission issued a ruling that amended the effective date for SFAS 123R. As a result, we adopted SFAS 123R on March 1, 2006.

Other Information

As mentioned above, we did not pay any cash dividends during the fiscal year ended February 28, 2005 but did declare and pay a \$0.02 cash dividend in August 2005. Subsequent to the end of fiscal 2006, the Company approved the adoption of a dividend policy under which the Company will issue a regular annual cash dividend on shares of its 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, in April 2006, the Board of Directors declared and the Company paid the first regular annual cash dividend of \$0.02 per share in May 2006.

Off-Balance Sheet Arrangements

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

Item 3. Controls and Procedures.

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

PART II - OTHER INFORMATION

Item 1. Legal Proceedings.

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

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

During the three months ended May 31, 2006, the Company issued 31,000 shares of Common Stock upon exercise of previously granted stock options at an aggregate exercise price of \$8,710. All of the foregoing 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".

Information regarding repurchases made by the Company of shares of its Common Stock during the quarter ended May 31, 2006, is set forth below:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs ⁽¹⁾	Maximum Number of Shares That May Yet be Purchased Under the Plans or Programs ⁽¹⁾
March 1, 2006 to March 31, 2006	5,000	\$0.91	5,000	193,500
April 1, 2006 to April 30, 2006	-0-	-0-	-0-	-0-
May 1, 2006 to May 31, 2006	-0-	-0-	-0-	-0-
Total	5,000	\$0.91	5,000	193,500

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- (1) In August 2001, the Board of Directors of the Company authorized a 500,000 share stock repurchase program. Pursuant to the repurchase program, the Company may purchase up to 500,000 shares of its common stock in the open market or in privately negotiated transactions from time to time, based on market prices. The Company indicated that the timing of the buyback of the Company's shares will be dictated by overall financial and market conditions and other corporate considerations. The repurchase program may be suspended without further notice. During the three months ended May 31, 2006, a total of 5,000 shares were repurchased at a cumulative cost of \$4,550. Since August 2001, a total of 306,500 shares have been repurchased under the program at a cumulative cost of \$174,766.

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

SIGNATURES

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

EPOLIN, INC.
(Registrant)

Dated: July 14, 2006

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

Dated: July 14, 2006

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

EPOLIN, INC. AND SUBSIDIARY
FINANCIAL STATEMENTS
THREE MONTHS ENDED MAY 31, 2006 AND 2005

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have reviewed the accompanying Consolidated Balance Sheets of Epolin Inc. and Subsidiary as of May 31, 2006 and 2005 and the related Consolidated Statements of Income, Stockholders' Equity, and Cash Flows for the three-month periods then ended. These interim financial statements are the responsibility of the Company's management.

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

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

Weismann Associates LLC
Weismann Associates LLC
Livingston, NJ 07039

June 19, 2006

EPOLIN, INC. AND SUBSIDIARY
CONSOLIDATED BALANCE SHEETS

ASSETS

	May 31,	
	2006	2005
Current assets:		
Cash and cash equivalents	\$ 1,732,820	1,370,083
Accounts receivable	631,102	449,787
Inventories	681,280	716,238
Prepaid expenses	40,884	35,042
Deferred tax assets-current portion	6,016	5,891
Total current assets	3,092,102	2,577,041
 Plant, property and equipment - at cost:		
Land	81,000	81,000
Building and improvements	704,578	642,838
Laboratory equipment	243,958	194,135
Office equipment	117,491	102,837
Leasehold improvements	449,190	449,190
Total	1,596,217	1,470,000
Less: Accumulated depreciation and amortization	807,816	756,179
Net plant, property and equipment	788,401	713,821
 Other assets:		
Deferred tax assets-non current portion	166,132	191,076
Cash value - life insurance policy	214,911	214,050
Total other assets	381,043	405,126
Total	\$ 4,261,546	3,695,988

The accompanying notes are an integral part of these statements.

EPOLIN, INC. AND SUBSIDIARY

CONSOLIDATED BALANCE SHEETS (CONTINUED)

LIABILITIES AND STOCKHOLDERS' EQUITY

	May 31,	
	2006	2005
Current liabilities:		
Accounts payable	\$ 35,719	15,307
Accrued expenses	322,285	73,910
Taxes payable:		
Payroll	1,653	2,322
Income	137,303	73,831
Total current liabilities	496,960	165,370
 Other liabilities - Deferred compensation	 274,492	 294,109
 Total liabilities	 771,452	 459,479
 Commitments and Contingencies		
 Stockholders' equity:		
Preferred stock, \$15.513 par value; 940,000 shares authorized; none issued		
Preferred stock, series A convertible non-cumulative, \$2.50 par value; redemption price and liquidation preference; 60,000 shares authorized; 5,478 shares issued and redeemed		
Common stock, no par value; 20,000,000 shares authorized; 12,890,000 and 12,729,000 shares issued, 11,966,355 and 11,815,355 shares outstanding at 2006 and 2005, respectively	2,357,193	2,340,183
Paid-in capital	44,700	6,486
Retained earnings	1,418,283	1,211,772
Total	3,820,176	3,558,441
Less: Treasury stock-at cost	330,082	321,932
Total stockholders' equity	3,490,094	3,236,509
Total	\$ 4,261,546	3,695,988

The accompanying notes are an integral part of these statements.

EPOLIN, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF INCOME
THREE MONTHS ENDED MAY 31, 2006 AND 2005

	<u>2006</u>	<u>2005</u>
Sales	\$ 1,094,070	806,299
Cost of sales and expenses:		
Cost of sales	438,918	349,551
Selling, general and administrative	<u>296,116</u>	<u>251,057</u>
Total	<u>735,034</u>	<u>600,608</u>
Operating income	<u>359,036</u>	<u>205,691</u>
Other income:		
Rental income	4,500	3,000
Interest	<u>5,542</u>	<u>4,069</u>
Total other income	<u>10,042</u>	<u>7,069</u>
Income before taxes	369,078	212,760
Income taxes	<u>143,179</u>	<u>74,608</u>
Net income	<u>\$ 225,899</u>	<u>138,152</u>
Per share data:		
Basic earnings per common share	<u>\$ 0.02</u>	<u>0.01</u>
Fully diluted earnings per common share	<u>\$ 0.02</u>	<u>0.01</u>
Weighted average number of common shares outstanding	<u>11,959,942</u>	<u>11,815,355</u>

The accompanying notes are an integral part of these statements.

EPOLIN, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
THREE MONTHS ENDED MAY 31, 2006 AND 2005

	<u>Number of Outstanding Shares</u>	<u>Common Stock</u>	<u>Additional Paid-in- Capital</u>	<u>Retained Earnings</u>	<u>Treasury Shares</u>	<u>Treasury Costs</u>	<u>Stockholders' Equity</u>
Balance - March 1, 2005	12,729,000	\$ 2,340,183	6,486	1,073,620	913,645	(321,932)	3,098,357
Net income	-	-	-	138,152	-	-	138,152
Balance - May 31, 2005	<u>12,729,000</u>	<u>\$ 2,340,183</u>	<u>6,486</u>	<u>1,211,772</u>	<u>913,645</u>	<u>(321,932)</u>	<u>3,236,509</u>
Balance - March 1, 2006	12,859,000	\$ 2,348,483	6,486	1,431,711	918,645	(325,532)	3,461,148
Dividends paid	-	-	-	(239,327)	-	-	(239,327)
Common stock issued for stock option	31,000	8,710	38,214	-	-	-	46,924
Treasury stock purchased	-	-	-	-	5,000	(4,550)	(4,550)
Net income	-	-	-	225,899	-	-	225,899
Balance - May 31, 2006	<u>12,890,000</u>	<u>\$ 2,357,193</u>	<u>44,700</u>	<u>1,418,283</u>	<u>923,645</u>	<u>(330,082)</u>	<u>3,490,094</u>

The accompanying notes are an integral part of these statements.

EPOLIN, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
THREE MONTHS ENDED MAY 31, 2006 AND 2005

	<u>2006</u>	<u>2005</u>
Cash flows from operating activities:		
Net income	\$ 225,899	138,152
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	13,669	8,992
Deferred tax expense	4,174	1,406
Stock based compensation	38,214	-
Obligation under deferred compensation agreement	(32,000)	6,019
(Increase) decrease in:		
Accounts receivable	64,549	103,224
Inventories	(33,407)	34,178
Prepaid expenses	22,188	14,832
Prepaid taxes	1,599	600
Increase (decrease) in:		
Accounts payable	23,908	15,307
Accrued expenses	15,230	(169,504)
Taxes payable	131,449	70,561
	<u>475,472</u>	<u>223,767</u>
Cash flows from investing activities:		
Increase in cash value - life insurance policy	-	(7,880)
Payments for equipment	(22,864)	(78,470)
	<u>(22,864)</u>	<u>(86,350)</u>
Cash used from financing activities:		
Issuance of common stock	8,710	-
Treasury stock purchased	(4,550)	-
Dividends paid	(239,327)	-
	<u>(235,167)</u>	<u>-</u>
Increase in cash	217,441	137,417
Cash and cash equivalents:		
Beginning	<u>1,515,379</u>	<u>1,232,666</u>
Ending	<u>\$ 1,732,820</u>	<u>1,370,083</u>
Supplemental information:		
Income taxes paid	<u>\$ 5,955</u>	<u>2,427</u>

The accompanying notes are an integral part of these statements.

EPOLIN, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MAY 31, 2006 AND 2005

Note A – Organization:

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

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

Note B – Summary of Significant Accounting Policies:

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-KSB for the fiscal year ended February 28, 2006. 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, 2006 are not necessarily indicative of the results of operations for the fiscal year ending February 28, 2007.

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. Three customers represented 45.7% of the Company's trade receivables at May 31, 2006.

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

EPOLIN, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MAY 31, 2006 AND 2005

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

Principles of Consolidation - The accompanying Consolidated Financial Statements include the accounts of the Company and Subsidiary. Inter-company transactions and balances have been eliminated in consolidation. Condensed consolidating financial statements as of May 31, 2006 and for the three month period then ended are:

CONDENSED CONSOLIDATING BALANCE SHEET

	<u>Epolin Inc.</u>	<u>Epolin Holding, Corp.</u>	<u>Eliminations</u>	<u>Consolidated</u>
Current assets	\$ 2,865,845	226,257	-	3,092,102
Non-current assets	1,395,068	665,520	(891,144)	1,169,444
Total	<u>\$ 4,260,913</u>	<u>891,777</u>	<u>(891,144)</u>	<u>4,261,546</u>
Total liabilities	<u>770,819</u>	<u>142,987</u>	<u>(142,354)</u>	<u>771,452</u>
Stockholders' equity:				
Common stock	2,357,193	-	-	2,357,193
Additional paid-in capital	44,700	-	-	44,700
Retained earnings	1,418,283	748,790	(748,790)	1,418,283
Treasury stock	(330,082)	-	-	(330,082)
Total stockholders' equity	<u>3,490,094</u>	<u>748,790</u>	<u>(748,790)</u>	<u>3,490,094</u>
Total	<u>\$ 4,260,913</u>	<u>891,777</u>	<u>(891,144)</u>	<u>4,261,546</u>

CONDENSED CONSOLIDATING STATEMENT OF INCOME

	<u>Epolin Inc.</u>	<u>Epolin Holding, Corp.</u>	<u>Eliminations</u>	<u>Consolidated</u>
Sales	\$ 1,094,070	-	-	1,094,070
Other revenue	-	28,935	(24,435)	4,500
Total	<u>1,094,070</u>	<u>28,935</u>	<u>(24,435)</u>	<u>1,098,570</u>
Cost of sales	438,918	-	-	438,918
Selling, general and administrative	314,301	6,250	(24,435)	296,116
Total	<u>753,219</u>	<u>6,250</u>	<u>(24,435)</u>	<u>735,034</u>
Operating income	340,851	22,685	-	363,536
Other income - interest	3,392	2,150	-	5,542
Income before taxes	344,243	24,835	-	369,078
Income taxes	140,945	2,234	-	143,179
Net income	<u>\$ 203,298</u>	<u>22,601</u>	<u>-</u>	<u>225,899</u>

EPOLIN, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MAY 31, 2006 AND 2005

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

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

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

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

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

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

Depreciation and amortization expense totaled \$13,669 and \$8,992 for the three months ended May 31, 2006 and 2005, 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.

EPOLIN, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MAY 31, 2006 AND 2005

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 \$3,826 through May 31, 2006 and \$7,228 through May 31, 2005, 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 \$4,476 and \$5,718 for the three months ended May 31, 2006 and 2005, respectively.

EPOLIN, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MAY 31, 2006 AND 2005

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

Stock-based Compensation – Prior to March 1, 2006 the Company accounted for stock based compensation under Statement of Financial Accounting Standards No. 123 Accounting for Stock-Based Compensation (FAS 123). As permitted under this standard, compensation cost was recognized using the intrinsic value method described in Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees (APB 25). Effective March 1, 2006, the Company has adopted Statement of Financial Accounting Standards ("SFAS") No. 123(R), "Share-Based Payment". SFAS 123R revises SFAS No. 123 and supersedes APB 25 to require 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. As a result of the adoption of FAS 123R, stock-based compensation expense recognized during the quarter ended March 31, 2006 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.

During the quarter ended May 31, 2006, the Company recognized stock-based compensation expenses of \$5,214 related to outstanding stock options according to the provisions of FAS 123R, using the modified-prospective transition method.

Prior to the adoption of FAS 123R and for the year ended February 28, 2006, 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, 2006 and 2005 was \$.18 and \$.10, respectively. The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions used for grants:

Three Months Ended May 31,	<u>2006</u>	<u>2005</u>
Weighted average expected life in years	3	5
Dividends per share	0.02	0.04
Volatility	6.0%	6.0%
Risk-free interest rate	4.5%	3.9%

EPOLIN, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MAY 31, 2006 AND 2005

Note B – Summary of Significant Accounting Policies (continued)

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

	Three Months Ended <u>May 31, 2005</u>
Net earnings as reported	\$ 138,152
Deduct total additional stock-based employee compensation cost, net of tax that would have been included in net earnings under fair value method	<u>32,300</u>
Proforma net earnings	<u>\$ 105,852</u>
Basic earnings per share:	
As reported	<u>0.01</u>
Proforma	<u>0.01</u>
Average common shares outstanding	<u>11,815,355</u>
Diluted earnings per share:	
As reported	<u>0.01</u>
Proforma	<u>0.01</u>
Total diluted common shares outstanding	<u>11,962,900</u>

Note C - Inventories:

	May 31,	
	2006	2005
Raw materials and supplies	\$ 62,756	66,032
Work in process	191,472	240,354
Finished goods	<u>427,052</u>	<u>409,852</u>
Total	<u>\$ 681,280</u>	<u>716,238</u>

EPOLIN, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MAY 31, 2006 AND 2005

Note D – Income Taxes:

1. Federal and State deferred tax assets include:

	<u>2006</u>	<u>2005</u>
Temporary differences:		
Accelerated amortization	\$50,546	70,908
Deferred compensation	119,360	126,059
Stock based compensation	<u>2,242</u>	<u>-</u>
Total	172,148	196,967
Current portion	<u>6,016</u>	<u>5,891</u>
Non-current portion	<u>\$166,132</u>	<u>191,076</u>

2. Income tax expense:

	<u>2006</u>	<u>2005</u>
Current:		
Federal	\$110,241	58,500
State	<u>28,764</u>	<u>14,702</u>
Total current	<u>139,005</u>	<u>73,202</u>
Deferred:		
Federal	3,300	1,112
State	<u>874</u>	<u>294</u>
Total deferred	<u>4,174</u>	<u>1,406</u>
Total	<u>\$143,179</u>	<u>74,608</u>

EPOLIN, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MAY 31, 2006 AND 2005

Note E – Treasury Stock:

Consists of 923,645 shares as of May 31, 2006 at a net cost of \$330,082 and 913,645 shares as of May 31, 2005 at a net cost of \$321,932, respectively.

The Company purchased 5,000 shares during the three months ended May 31, 2006.

Note F – Economic Dependency:

A material portion of the Company's business is dependent on certain domestic customers, the loss of which could have a material effect on operations. During the three months ended May 31, 2006, approximately 40.6% of sales were to three customers. Two of these customers, located in the Eastern United States, accounted for 29.6% of sales. During the three months ended May 31, 2005, approximately 44.1% of sales were to three customers, two of these customers, located in the Eastern United States, accounted for 39.0% of sales.

Note G – Rental Income Under Sublease:

The Company entered into a sublease agreement with a non-related party effective November 1, 2002 through August 31, 2005. Under the terms of the lease, the tenant is to pay a base rent of \$36,000 per year. The Company entered into a new agreement with another non-related party effective September 1, 2005 for a term ending October 31, 2007. Under the terms of the new agreement, the tenant is to pay a base rent of \$18,000 per year.

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 \$12,683 and \$13,714 for the three months ended May 31, 2006 and 2005, respectively.

EPOLIN, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MAY 31, 2006 AND 2005

Note H – Employee Benefits (continued):

Stock Option Plan – The Company previously adopted The 1986 Stock Option Plan. As of April 1996, under the terms of the Plan, options may no longer be granted. On December 1, 1995, options to acquire up to 490,000 shares of the Company’s common stock were granted. Options exercised for all prior years totaled 455,000. Options cancelled for all prior years totaled 35,000. There were no outstanding options as of May 31, 2006.

The Company adopted the 1998 Stock Option Plan on December 1, 1998. Under the terms of the plan, the Company reserved 750,000 shares of common stock for issuance pursuant to the exercise of options to be granted under the Plan, which do not meet the requirements of Section 422 of the Code. On September 15, 2001, the Board of Directors increased the reserve to 1,500,000. Options granted expire five or ten years after the date granted and are subject to various vesting periods as follows: (1) none exercisable prior to the first anniversary of the date of grant, and (2) certain options will become exercisable as to 50% of the shares underlying the option on each of the first and second anniversaries of the date granted (3) certain options will become exercisable as to 50% of the shares underlying the option on each of the second and fourth anniversaries of the date granted. Options exercised through May 31, 2006 totaled 661,000. Options cancelled for all years totaled 160,000. All cancelled options are available for future grants.

A summary of the status of the Company’s 1998 stock option plan as of May 31, 2006, and the changes during the three months ended May 31, 2006 is presented below:

<u>Fixed Options:</u>	<u>Shares</u>	<u>Weighted-Average Exercise Price</u>
Balance – March 1, 2005	322,000	\$.30
Granted	200,000	.54
Cancelled	(35,000)	.25
Exercised	<u>(30,000)</u>	.28
Balance – February 28, 2006	457,000	.42
Granted	-	-
Cancelled	(5,000)	.25
Exercised	<u>(31,000)</u>	.28
Balance – May 31, 2006	<u>421,000</u>	\$.42
Exercisable at May 31, 2006	160,000	

EPOLIN, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MAY 31, 2006 AND 2005

Note H – Employee Benefits (continued):

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

1. Stock Option - An option to purchase 100,000 shares of common stock at an exercise price equal to the fair market value of the Company’s common stock at the date of grant. The option is exercisable only after the completion of the second year of employment.
2. Stock-based Employee Compensation – A grant of 100,000 shares of restricted common stock one year from the date of the agreement, provided the employee is then employed by the Company. In connection with this agreement, compensation in the amount of \$33,000 was charged to selling, general and administrative expenses for the three months ended May 31, 2006.

Stock Option Plans - The following table summarizes information about fixed stock options outstanding at May 31, 2006:

<u>Outstanding Options</u>			<u>Exercisable Options</u>	
<u>Range of Exercise Price</u>	<u>Number Outstanding at 2/28/06</u>	<u>Weighted-average Remaining Contractual Life</u>	<u>Number Exercisable at 2/28/06</u>	<u>Weighted-average Exercise Price</u>
\$.25	80,000	0.3 years	80,000	\$.25
.30	25,000	1.5	25,000	.30
.41	116,000	7.7	55,000	.41
.52	100,000	3.4	-	.52
.54	200,000	4.1	-	.54

There are 418,000 options attributable to future grants.

Note I – Segment Reporting:

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

EPOLIN, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MAY 31, 2006 AND 2005

Note I – Segment Reporting (continued):

Sales by geographic area are as follows:

	<u>Three Months Ended May 31,</u>	
	<u>2006</u>	<u>2005</u>
United States	\$ 816,459	479,116
Asia	215,835	235,195
Europe	56,618	80,670
Other nations	<u>5,158</u>	<u>11,318</u>
 Total	 <u>\$ 1,094,070</u>	 <u>806,299</u>

One customer, located in the Southeastern United States, accounted for more than 10% of revenues from continuing operations. This customer accounted for 20.3% of sales of which 12.7% was near infrared dyes and 7.6% was security inks.

Long-lived assets include net property and equipment. The Company had long-lived assets of \$788,401 and \$713,821 located in the United States at May 31, 2006 and 2005, respectively.

Note J - Accrued Expenses:

Accrued expenses consisted of the following as of May 31, 2006 and 2005, respectively:

	<u>2006</u>	<u>2005</u>
Salaries and wages	23,462	8,358
Employment agreement	271,585	52,410
Professional fees	19,100	5,000
Property taxes	<u>8,138</u>	<u>8,142</u>
 Total accrued expenses	 <u>\$ 322,285</u>	 <u>73,910</u>

EPOLIN, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MAY 31, 2006 AND 2005

Note K - Earnings per Share:

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

	2006	2005
Basic Earnings Per Common Share:		
Net income	\$ 225,899	138,152
Average common shares outstanding	11,959,942	11,815,355
Basic earnings per common share	\$ 0.02	0.01
Diluted Earnings Per Common Share:		
Net income	\$ 225,899	138,152
Average common shares outstanding	11,959,942	11,815,355
Common shares issuable with respect to options issued to employees with a dilutive effect	93,618	147,545
Total diluted common shares outstanding	12,053,560	11,962,900
Diluted earnings per common share	\$ 0.02	0.01

EPOLIN, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MAY 31, 2006 AND 2005

Note L – Commitments and Contingencies:

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

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

Rental expense charged to operations, eliminated in consolidation, amounted to \$24,435 for the three months ended May 31, 2006 and 2005, respectively.

Future minimum payments for the current option period:

Fiscal years ending February:

2007	\$73,305
2008	97,740
2009	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.

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

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
MAY 31, 2006 AND 2005

Note L – Commitments and Contingencies (continued):

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

Murray S. Cohen, PhD, Chairman of the Board - To be paid an annual salary of not less than the greater of his annual base salary in effect immediately prior to the effective date of the agreement or any subsequently established annual base salary. He is to receive 2.00% on gross annual sales of no more than \$3,000,000, effective with the year ended February 28, 2000, increasing by 0.25% a year during the term of the agreement. In the event of death or disability 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.

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, 2006 and 2005 was \$76,585 and \$52,410, respectively.

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, 2005. 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 Board of Directors.

Note M – Dividends:

In April 2006, the Company's Board of Directors declared a cash dividend of two cents per share on all common shares outstanding. The dividend, in the amount of \$239,327 was paid on May 1, 2006 to shareholders of record on April 20, 2006.

EPOLIN, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MAY 31, 2006 AND 2005

Note N – 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 \$127,237 and \$116,675 were included in cost of sales for the three months ended May 31, 2006 and 2005, respectively. Expenditures for fiscal year 2007 are projected to remain at approximately the same level as in fiscal 2006.

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

Dated: July 14, 2006

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

Dated: July 14, 2006

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

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

In connection with the Quarterly Report of Epolin, Inc. (the "Company") on Form 10-QSB for the period ended May 31, 2006, 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 14, 2006

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

Dated: July 14, 2006

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