
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, 2008

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

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

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

Yes No

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

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 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 29, 2008. The Company does not intend to update these forward-looking statements.

Executive Overview

Epolin, Inc. (the "Company", "we", "us" and "our") 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. In recent years, 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 now offer our customers added service in the form of formulated inks and resins. This has resulted in increasing our worldwide sales of these products and, we believe, lessens the threat of competition from lower cost dyes manufactured abroad. During the nine months ended November 30, 2008, approximately 31.0% of sales were to three customers. During the nine months ended November 30, 2007, approximately 37.9% 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 six months ended November 30, 2008 and 2007.

Three Months Ended November 30,

	<u>2008</u>	<u>2007</u>	<u>% change</u>
Sales	\$733,045	\$826,610	-11.3%
Gross profit	415,891	584,926	-28.9%
Gross profit percentage	56.7%	70.7%	-14.0%
Selling, general & administrative	<u>321,330</u>	<u>301,151</u>	6.7%
Operating income	94,561	283,775	-66.7%
Other Income	<u>9,372</u>	<u>81,305</u>	-88.5%
Income before taxes	103,933	365,080	-71.5%
Income taxes	28,952	147,166	-80.3%
Net income (after taxes)	<u>\$74,981</u>	<u>\$217,914</u>	-65.6%

Nine Months Ended November 30,

	<u>2008</u>	<u>2007</u>	<u>% change</u>
Sales	\$2,497,516	\$2,761,168	-9.5%
Gross profit	1,413,855	1,742,928	-18.9%
Gross profit percentage	56.6%	63.1%	-6.5%
Selling, general & administrative	<u>945,395</u>	<u>940,149</u>	0.6%
Operating income	468,460	802,779	-41.6%
Other Income	<u>49,381</u>	<u>117,489</u>	-58.0%
Income before taxes	517,841	920,268	-43.7%
Income taxes	187,021	352,714	-47.0%
Net income (after taxes)	<u>\$330,820</u>	<u>\$567,554</u>	-41.7%

Sales

For the three months ended November 30, 2008, sales were \$733,000 as compared to \$827,000 for the three months ended November 30, 2007, a decrease of \$94,000 or 11.3%. Sales decreased to \$2,498,000 for the nine months ended November 30, 2008 from \$2,761,000 for the nine months ended November 30, 2007, a decrease of \$263,000 or 9.5%.

Such decreases in sales for the three and nine months ended November 30, 2008 compared to the prior year periods is primarily due to our ink and coating sales which have deteriorated significantly in recent periods. For the three months ended November 30, 2008, sales in the ink and coating market decreased \$424,000 compared to the three months ended November 30, 2007, while sales for the nine months ended November 30, 2008 decreased \$371,000 compared to the nine months ended November 30, 2007. The decrease in sales in the ink and coating market is primarily due to reduced sales in the security inks business which had been a key area of our growth from 2005 to 2007.

While sales in the ink and coating market have been declining, sales in the eye protection market and light management market have been relatively strong. Sales in the eye protection market, which represents our oldest and most traditional market, increased \$107,000 or 10.8% for the nine months ended November 30, 2008 compared to the prior year period. Sales in the light management market increased \$12,000 or 2.0% in the nine months ended November 30, 2008 compared to the prior year period.

Sales overseas increased in Asia and Europe for the nine months ended November 30, 2008 while sales decreased in the United States for the nine months ended November 30, 2008, compared to the prior year period. For the nine months ended November 30, 2008, sales in Asia increased to \$436,000 from \$371,000 while in Europe, sales increased to \$336,000 from \$158,000 for the prior year period. In the United States, sales decreased to \$1,725,000 in the nine months ended November 30, 2008 from \$2,231,000 in the nine months ended November 30, 2007.

Gross Profit

Gross profit, defined as sales less cost of sales, was \$416,000 or 56.7% of sales for the three months ended November 30, 2008, compared to \$585,000 or 70.7% of sales for the three months ended November 30, 2007. For the nine months ended November 30, 2008, gross profit was \$1,414,000 or 56.6% of sales, compared to \$1,743,000 or 63.1% of sales for the nine months ended November 30, 2007. In terms of absolute dollars, gross profit decreased \$169,000 for the three months ended November 30, 2008 compared to the prior year period, and decreased \$329,000 for the nine months ended November 30, 2008 compared to the nine months ended November 30, 2007.

Cost of sales was \$317,000 for the three months ended November 30, 2008 which represented 43.3% of sales compared to \$242,000 for the three months ended November 30, 2007 which represented 29.3% of sales. For the nine months ended November 30, 2008, cost of sales was \$1,084,000 which represented 43.4% of sales, compared to \$1,018,000 for the nine months ended November 30, 2007 which represented 36.9% of sales. Total cost of materials increased \$54,000 in the nine months ended November 30, 2008 compared to the prior year period. Total factory overhead increased \$12,000 in the nine months ended November 30, 2008 compared to the prior year period. Although there were increases in research and development salaries, these increases were substantially offset by decreases in applied factory overhead, laboratory supplies and other miscellaneous costs. There were also increases of \$14,000 in research and development supplies.

Selling, General and Administrative Expenses

Selling, general and administrative expenses increased to \$321,000 for the three months ended November 30, 2008 compared to \$301,000 for the three months ended November 30, 2007, an increase of \$20,000, while selling, general and administrative expenses increased to \$945,000 for the nine months ended November 30, 2008 from \$940,000 for the nine months ended November 30, 2007, an increase of \$5,000. Such increase was primarily due to a decrease in officers' salaries (primarily from the Chairman of the Board's decision to become a part-time employee with a corresponding reduction in his base salary), and a decrease in directors' and officers' insurance in the nine months ended November 30, 2008 offset by increases in professional fees, directors fees (non-cash compensation resulting from the grant of shares), travel, office supplies, miscellaneous expenses and applied factory overhead. In addition, we incurred a placement fee of \$12,000 in the nine months ended November 30, 2007 for which there was no comparable item in the nine months ended November 30, 2008.

Operating Income

Operating income, in terms of absolute dollars, decreased to \$95,000 for the three months ended November 30, 2008 from \$284,000 for the three months ended November 30, 2007, a decrease of \$189,000, while operating income decreased to \$468,000 for the nine months ended November 30, 2008 from \$803,000 for the prior year period, a decrease of \$335,000. Such change in the three and nine months periods was primarily due to the decrease in sales for the three and nine months ended November 30, 2008 compared to the three and nine months ended November 30, 2007. As a percentage of sales, operating income was 13.0% of sales for the three months ended November 30, 2008 compared to 34.3% of sales for the three months ended November 30, 2007. For the nine months ended November 30, 2008 compared to the prior year period, operating income decreased as a percentage of sales to 18.7% from 29.1%.

Other Income

Total other income was \$9,000 and \$49,000 for the three and nine months ended November 30, 2008 compared to \$81,000 and \$117,000 for the three and nine months ended November 30, 2007. During the quarter ended November

30, 2007, we received an insurance reimbursement of \$61,000 for which there was not a comparable item during the nine months ended November 30, 2008. We realize rental income of \$4,500 and \$13,500 for the three and nine months ended November 30, 2008 and 2007. Our interest income was \$5,000 and \$36,000 for the three and nine months ended November 30, 2008 compared to \$16,000 and \$43,000 for the prior year periods.

Net Income

During the three months ended November 30, 2008, we reported income before taxes of \$104,000 as compared to income before taxes of \$365,000 for the three months ended November 30, 2007, a decrease of \$261,000. During the nine months ended November 30, 2008, we reported income before taxes of \$518,000 as compared to income before taxes of \$920,000 for the nine months ended November 30, 2007, a decrease of \$402,000. Income taxes were \$29,000 and \$187,000 for the three and nine months ended November 30, 2008 while income taxes were \$147,000 and \$353,000 for the comparable periods of 2007. The changes in income taxes were generally attributed to changes from period to period in sales and expenses. Net income after taxes was \$75,000 or \$0.01 per share for the three months ended November 30, 2008 as compared to net income after taxes of \$218,000 or \$0.02 per share for the three months ended November 30, 2007. For the nine months ended November 30, 2008, net income after taxes was \$331,000 or \$0.03 per share as compared to net income after taxes of \$568,000 or \$0.05 per share for the nine months ended November 30, 2007.

Net income in the future will be dependent upon our ability to increase revenues faster than increases, if any, in our selling, general and administrative expenses, research and development expenses and other expenses. Prior to fiscal 2007, sales had grown for a number of consecutive years. In fiscal 2007, however, sales decreased by \$91,000 compared to fiscal 2006 and, in fiscal 2008, sales decreased by \$17,000 compared to fiscal 2007. While sales have decreased, net income did improve in fiscal 2008 by \$101,000 compared to fiscal 2007 and net income increased by \$29,000 in fiscal 2007 compared to fiscal 2006. During the first nine months of fiscal 2009, however, sales decreased by \$263,000 and net income decreased to a lesser extent by \$237,000 compared to the first nine months of fiscal 2008.

Operations Outlook

Following a period of readjustment in our business priorities, we were able to achieved \$3,701,000 in sales for fiscal 2006 which was \$821,000 or 28.5% greater than the prior fiscal year. In fiscal 2007, however, sales decreased to \$3,610,000, a decrease of 2.5% from the prior year, and in fiscal 2008, sales decreased to \$3,593,000, a decrease of 0.5% from fiscal 2007. This has continued into the first nine months of fiscal 2009 in which sales decreased \$263,000 or 9.5% compared to the first nine months of fiscal 2008. 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 may not be able achieve the same type of growth in the security inks market in the future. Nevertheless, we are confident that with our core group of products, we will be able to maintain sales in our principal markets, such as the eye protection market and the light management market, while always seeking new areas for the use of our dyes.

As a result of recent expressions of interest received, management has begun to explore strategic alternatives for the Company. There can be no assurance that the process will result in a transaction that our Board determines is in the best interests of the Company and its stockholders. The Company does not currently intend to publicly disclose further information regarding the status of its review but will publicly report all required information on a timely basis.

Liquidity and Capital Resources

Our primary source of funds is cash flow from operations in the normal course of selling products. On November 30, 2008, we had working capital of \$2,648,000, a debt to equity ratio of 0.15 to 1, and stockholders' equity of \$3,552,000 compared to working capital of \$3,007,000 a debt to equity ratio of 0.14 to 1, and stockholders equity of \$3,911,000 on February 29, 2008. On November 30, 2008, we had \$1,624,000 in cash and cash equivalents, total assets of \$4,098,000 and total liabilities of \$545,000, compared to \$1,980,000 in cash and cash equivalents, total assets of \$4,478,000 and total liabilities of \$566,000 on February 29, 2008.

Net cash provided by operating activities for the nine months ended November 30, 2008 was \$445,000 which was primarily the result of net income of \$331,000, plus decreases in accounts receivable of \$187,000 and increases in accounts payable of \$23,000, offset by increases in inventories of \$73,000 and prepaid taxes of \$90,000, and decreases in accrued expenses of \$11,000 and taxes payable of \$37,000. Net cash provided by operating activities for the nine months ended November 30, 2007 was \$637,000 which was primarily the result of net income of \$568,000, plus an increase in

taxes payable of \$82,000, offset by increases in inventories of \$51,000, decreases in accounts payable of \$40,000 and in accrued expenses of \$8,000. Net cash used by investing activities for the nine months ended November 30, 2008 was \$82,000 due to equipment purchases of \$74,000 and an increase in cash value of a life insurance policy of \$9,000, while net cash used by investing activities was \$73,000 for the nine months ended November 30, 2007 due to equipment purchases of \$105,000 offset by a decrease in cash value of a life insurance policy of \$31,000. For the nine months ended November 30, 2008, net cash used by financing activities was \$718,000 and was \$239,000 for the nine months ended November 30, 2007 which was due to the payment of dividends in each fiscal year.

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 2009 and beyond will depend primarily upon level of sales of our products, inventory levels, product development, sales and marketing expenditures and capital expenditures.

Inflation has not significantly impacted our operations.

Significant Accounting Policies

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

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

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

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

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

Stock-based Compensation – Prior to March 1, 2006, we 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, we have 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, we have 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 for the period ended November 30, 2007 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.

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 has been paid in each of January 2007 and January 2008. In addition to the foregoing, and considering our cash position, the Board of Directors recently declared a supplemental special cash dividend of \$0.04 per share which was payable in August 2008. We have not declared another special cash dividend in January 2009 similar to the special cash dividends we have paid in January of prior years.

In August 2001, our Board of Directors authorized a 500,000 share stock repurchase program. Pursuant to the repurchase program, the Company may purchase up to 500,000 shares of its common stock in the open market or in privately negotiated transactions from time to time, based on market prices. The Company indicated that the timing of the buyback of the Company's shares will be dictated by overall financial and market conditions and other corporate considerations. The repurchase program may be suspended without further notice. There were no repurchases made by the Company of shares of its Common Stock during the fiscal year ended February 29, 2008 and the first nine months of fiscal 2009. In prior years, since the adoption of the program, a total of 331,500 shares were repurchased at a cumulative cost of \$195,766.

In September 2007, Murray S. Cohen advised the Board of Directors that beginning as of October 1, 2007 and in accordance with his employment agreement he will reduce the time he devotes to Company business to approximately 25% of his time. Dr. Cohen had been devoting approximately 50% of his time to the business since September 2006. Dr. Cohen has been and will remain Chairman of the Board and Chief Scientist of the Company.

Morris Dunkel, a director of the Company, died on August 22, 2008. The Board of Directors has made no decision as to when the resulting vacancy on the Board will be filled.

Off-Balance Sheet Arrangements

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

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

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

Item 4T. Controls and Procedures.

Under the supervision and with the participation of our management, including the Principal Executive Officer and Principal Financial Officer, we have evaluated the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) and Rule 15d-15(e) of the Exchange Act) as of the end of the period covered by this report. Based on that evaluation, our Principal Executive Officer and Principal Financial Officer have concluded that, as of November 30, 2008, these disclosure controls and procedures were effective to ensure that all information required to be disclosed by us in the reports that we file or submit under the Exchange Act is: (i) recorded, processed, summarized and reported, within the time periods specified in the Commission's rule and forms; and (ii) accumulated and communicated

to our management, including our Principal Executive Officer and Principal Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

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

PART II - OTHER INFORMATION

Item 1. Legal Proceedings.

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

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

Pursuant to Epolin, Inc. 2008 Stock Incentive Plan (the "2008 Plan"), adopted by the Board of Directors on June 18, 2008 and approved by the stockholders on August 18, 2008, on September 1 of each year, commencing September 1, 2008, each person who serves as a director on such date shall automatically receive a stock award of 25,000 shares of Common Stock. On September 1, 2008, 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. Submission of Matters to a Vote of Security-Holders.

None.

Item 5. Other Information.

None.

Item 6. Exhibits.

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

SIGNATURES

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

EPOLIN, INC.
(Registrant)

Dated: January 12, 2009

By: /s/ Greg Amato
Greg Amato,
Chief Executive Officer

Dated: January 12, 2009

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

EPOLIN, INC. AND SUBSIDIARY
CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
NINE MONTHS ENDED
NOVEMBER 30, 2008 AND 2007

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

ASSETS

	November 30, 2008 (Unaudited)	February 29, 2008
Current assets:		
Cash and cash equivalents	\$ 1,624,467	1,980,142
Accounts receivable	431,907	618,445
Inventories	715,438	642,529
Prepaid expenses	60,950	60,412
Prepaid taxes	90,450	-
Deferred tax assets-current portion	<u>18,770</u>	<u>25,182</u>
 Total current assets	 <u>2,941,982</u>	 <u>3,326,710</u>
Plant, property and equipment - at cost:		
Land	81,000	81,000
Building and improvements	767,300	710,758
Laboratory equipment	191,638	189,300
Furniture and office equipment	230,597	215,764
Leasehold improvements	<u>458,495</u>	<u>458,495</u>
 Total	 1,729,030	 1,655,317
 Less: Accumulated depreciation and amortization	 <u>878,172</u>	 <u>800,593</u>
 Net plant, property and equipment	 <u>850,858</u>	 <u>854,724</u>
Other assets:		
Deferred tax assets-non current portion	94,747	94,973
Cash value - life insurance policy	<u>209,972</u>	<u>201,369</u>
 Total other assets	 <u>304,719</u>	 <u>296,342</u>
 Total	 <u>\$ 4,097,559</u>	 <u>4,477,776</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, 2008 (Unaudited)	February 29, 2008
Current liabilities:		
Accounts payable	\$ 32,382	9,660
Accrued expenses	259,348	270,755
Taxes payable:		
Payroll	1,889	1,889
Income	-	37,400
	<hr/>	<hr/>
Total current liabilities	293,619	319,704
 Other liabilities - Deferred compensation	 <hr/>	 <hr/>
	251,712	246,683
	<hr/>	<hr/>
Total liabilities	545,331	566,387
	<hr/>	<hr/>
 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; 13,015,000 and 12,915,000 shares issued, and 12,066,355 and 11,966,355 shares outstanding at November 30, 2008 and February 29, 2008, respectively	2,364,693	2,364,693
Additional paid-in capital	104,820	76,820
Retained earnings	1,433,797	1,820,958
	<hr/>	<hr/>
Total	3,903,310	4,262,471
Less: Treasury stock - at cost	351,082	351,082
	<hr/>	<hr/>
Total stockholders' equity	3,552,228	3,911,389
	<hr/>	<hr/>
Total	<u>\$ 4,097,559</u>	<u>4,477,776</u>

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, 2008 AND 2007

	<u>2008</u>	<u>2007</u>
Sales	\$ 2,497,516	2,761,168
Cost of sales and expenses:		
Cost of sales	1,083,661	1,018,240
Selling, general and administrative	<u>945,395</u>	<u>940,149</u>
Total	<u>2,029,056</u>	<u>1,958,389</u>
Operating income	<u>468,460</u>	<u>802,779</u>
Other income:		
Rental income	13,500	13,500
Miscellaneous	-	61,281
Interest	<u>35,881</u>	<u>42,708</u>
Total	<u>49,381</u>	<u>117,489</u>
Income before taxes	517,841	920,268
Income taxes	<u>187,021</u>	<u>352,714</u>
Net income	<u>\$ 330,820</u>	<u>567,554</u>
Per share data:		
Basic earnings per common share	<u>\$ 0.03</u>	<u>0.05</u>
Fully diluted earnings per common share	<u>\$ 0.03</u>	<u>0.05</u>
Weighted average number of common shares outstanding	<u>11,999,446</u>	<u>11,966,355</u>
Fully diluted number of common shares outstanding	<u>12,039,882</u>	<u>12,003,424</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, 2008 AND 2007

	<u>2008</u>	<u>2007</u>
Sales	\$ 733,045	826,610
Cost of sales and expenses:		
Cost of sales	317,154	241,684
Selling, general and administrative	<u>321,330</u>	<u>301,151</u>
Total	<u>638,484</u>	<u>542,835</u>
Operating income	<u>94,561</u>	<u>283,775</u>
Other income:		
Rental income	4,500	4,500
Miscellaneous	-	61,081
Interest	<u>4,872</u>	<u>15,724</u>
Total	<u>9,372</u>	<u>81,305</u>
Income before taxes	103,933	365,080
Income taxes	<u>28,952</u>	<u>147,166</u>
Net income	<u>\$ 74,981</u>	<u>217,914</u>
Per share data:		
Basic earnings per common share	<u>\$ 0.01</u>	<u>0.02</u>
Fully diluted earnings per common share	<u>\$ 0.01</u>	<u>0.02</u>
Weighted average number of common shares outstanding	<u>12,066,355</u>	<u>11,966,355</u>
Fully diluted number of common shares outstanding	<u>12,106,791</u>	<u>12,003,424</u>

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

EPOLIN, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY (Unaudited)
NINE MONTHS ENDED NOVEMBER 30, 2008

	<u>Number of Shares Issued</u>	<u>Common Stock</u>	<u>Additional Paid-in- Capital</u>	<u>Retained Earnings</u>	<u>Treasury Shares</u>	<u>Treasury Stock</u>	<u>Stockholders' Equity</u>
Balance - March 1, 2008	12,915,000	\$ 2,364,693	76,820	1,820,958	948,645	(351,082)	3,911,389
Dividends paid	-	-	-	(717,981)	-	-	(717,981)
Stock-based compensation	100,000	-	28,000	-	-	-	28,000
Net income	-	-	-	<u>330,820</u>	-	-	<u>330,820</u>
Balance - November 30, 2008	<u>13,015,000</u>	<u>\$ 2,364,693</u>	<u>104,820</u>	<u>1,433,797</u>	<u>948,645</u>	<u>(351,082)</u>	<u>3,552,228</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, 2008 AND 2007

	2008	2007
Cash flows from operating activities:		
Net income	\$ 330,820	567,554
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	77,579	65,160
Deferred tax expense	6,638	21,754
Stock based compensation	28,000	13,042
Obligation under deferred compensation agreement	5,029	(24,244)
(Increase) decrease in:		
Accounts receivable	186,538	2,788
Inventories	(72,909)	(50,993)
Prepaid expenses	(538)	5,216
Prepaid taxes	(90,450)	1,920
Increase (decrease) in:		
Accounts payable	22,722	(40,050)
Accrued expenses	(11,407)	(7,595)
Taxes payable	(37,400)	82,221
Net cash provided by operating activities	444,622	636,773
Cash flows from investing activities:		
(Increase) decrease in cash value - life insurance policy	(8,603)	31,491
Payments for equipment	(73,713)	(104,739)
Net cash used in investing activities	(82,316)	(73,248)
Cash flows used in financing activities:		
Dividends paid	(717,981)	(239,327)
Increase (decrease) in cash	(355,675)	324,198
Cash and cash equivalents:		
Beginning	1,980,142	1,751,346
Ending	\$ 1,624,467	2,075,544
Supplemental disclosures of cash flows:		
Income taxes paid	\$ 273,398	249,628

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

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

NOTE A – Organization:

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

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

NOTE B – Summary of Significant Accounting Policies:

Basis of Presentation – The interim Consolidated Financial Statements presented herein are unaudited and should be read in conjunction with the Consolidated Financial Statements presented in the Company's Annual Report on Form 10-KSB for the fiscal year ended February 29, 2008. 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 nine-month interim period ended November 30, 2008 and 2007 are not necessarily indicative of the results of operations for the fiscal year ending February 28, 2009.

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 55.3% of the Company's trade receivables at November 30, 2008.

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 (Unaudited)

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

Principles of Consolidation - The accompanying Unaudited Consolidated Financial Statements include the accounts of the Company and Subsidiary. Inter-company transactions and balances have been eliminated in consolidation. Condensed Unaudited Consolidating Financial Statements as of **November 30, 2008** and for the nine months then ended are:

CONDENSED CONSOLIDATING BALANCE SHEET

	<u>Epolin Inc.</u>	<u>Epolin Holding, Corp.</u>	<u>Eliminations</u>	<u>Consolidated</u>
Current assets	\$ 2,603,572	338,410	-	2,941,982
Non-current assets	1,493,987	661,459	(999,869)	1,155,577
Total	<u>\$ 4,097,559</u>	<u>999,869</u>	<u>(999,869)</u>	<u>4,097,559</u>
Total liabilities	\$ 545,331	24,435	(24,435)	545,331
Stockholders' equity:				
Common stock	2,364,693	-	-	2,364,693
Additional paid-in capital	104,820	-	-	104,820
Retained earnings	1,433,797	975,434	(975,434)	1,433,797
Treasury stock	(351,082)	-	-	(351,082)
Total stockholders' equity	<u>3,552,228</u>	<u>975,434</u>	<u>(975,434)</u>	<u>3,552,228</u>
Total	<u>\$ 4,097,559</u>	<u>999,869</u>	<u>(999,869)</u>	<u>4,097,559</u>

CONDENSED CONSOLIDATING STATEMENT OF INCOME

	<u>Epolin Inc.</u>	<u>Epolin Holding, Corp.</u>	<u>Eliminations</u>	<u>Consolidated</u>
Sales	\$ 2,497,516	-	-	2,497,516
Rental income	-	86,805	(73,305)	13,500
Total	<u>2,497,516</u>	<u>86,805</u>	<u>(73,305)</u>	<u>2,511,016</u>
Cost of sales	1,083,661	-	-	1,083,661
Selling, general and administrative	997,975	20,725	(73,305)	945,395
Total	<u>2,081,636</u>	<u>20,725</u>	<u>(73,305)</u>	<u>2,029,056</u>
Operating income	415,880	66,080	-	481,960
Other income - interest	29,962	5,919	-	35,881
Income before taxes	445,842	71,999	-	517,841
Income taxes	180,423	6,598	-	187,021
Net income	<u>\$ 265,419</u>	<u>65,401</u>	<u>-</u>	<u>330,820</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.

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.

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:

		<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 \$77,579 and \$65,160 for the nine months ended November 30, 2008 and 2007, 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 (Unaudited)

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

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

Revenue Recognition – The Company recognizes revenue consistent with the provisions of SEC Staff Accounting Bulletin No. 104, “Revenue Recognition”, which sets forth guidelines in the timing of revenue recognition based upon factors such as passage of title, payments, and customer acceptance. Any amounts received prior to satisfying our revenue recognition criteria will be recorded as deferred revenue in the accompanying balance sheet. The Company recognizes revenue from product sales when there is persuasive evidence that an arrangement exists, when title has passed, the price is fixed or determinable, and the Company is reasonably assured of collecting the resulting receivable. The Company’s policy is to replace certain products that are in nonconformity with customer specifications; however, replacements are made at the discretion of the Company subject to in house product lab analysis. There are no terms or conditions set forth within the Company’s sales contracts that provide for product replacements. Replacement costs are expensed as incurred.

Regulations – The Company expended approximately \$24,822 and \$24,775 through November 30, 2008 and 2007, respectively, to maintain compliance with certain Federal and State and City government regulations relative to the production of near infrared dyes and specialty chemicals.

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

Advertising Costs – Advertising costs, included in operating expenses, are expensed as incurred. Advertising expenses amounted to \$13,356 and \$10,576 for the nine months ended November 30, 2008 and 2007, respectively.

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

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 for the period ended November 30, 2007 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 nine and three months ended November 30, 2007, the Company recognized stock-based compensation expenses of \$13,042 and \$4,667, respectively, 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, 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, 2008 and 2007 was \$.18, respectively. The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions used for grants:

	Nine Months Ended	
	November 30,	
	2008	2007
Weighted average expected life in years	3	4
Dividends per share	0.06	0.04
Volatility	7.0%	6.0%
Risk-free interest rate	4.3%	4.9%

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

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

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

Also effective March 1, 2008, the Company adopted SFAS No. 159 "The Fair Value Option for Financial Assets and Financial Liabilities" ("FAS 159") which allows an entity the irrevocable option to elect fair value for the initial and subsequent measurement for certain financial assets and liabilities on a contract-by-contract basis. As of November 30, 2008, the Company has not elected the fair value option for any additional financial assets and liabilities beyond those already prescribed by accounting principles generally accepted in the United States.

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

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

NOTE C – Income Taxes:

1. Federal and State deferred tax assets include:

	<u>November 30,</u> <u>2008</u>	<u>February 29,</u> <u>2008</u>
Temporary differences:		
Accelerated amortization	\$ 11,877	2,696
Deferred compensation	85,586	101,405
Stock-based compensation	<u>16,054</u>	<u>16,054</u>
Total	113,517	120,155
 Current portion	 <u>18,770</u>	 <u>25,182</u>
 Non-current portion	 <u>\$94,747</u>	 <u>94,973</u>

2. Income tax expense:

	<u>November 30,</u>	
	<u>2008</u>	<u>2007</u>
Current:		
Federal	\$142,776	262,000
State	<u>37,607</u>	<u>68,960</u>
Total current	<u>180,383</u>	<u>330,960</u>
 Deferred:		
Federal	4,179	18,581
State	<u>2,459</u>	<u>3,173</u>
Total deferred	<u>6,638</u>	<u>21,754</u>
 Total	 <u>\$187,021</u>	 <u>352,714</u>

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

NOTE D – Treasury Stock:

Consists of 948,645 shares at a net cost of \$351,082, as of November 30, 2008 and February 29, 2008, respectively.

NOTE E – Economic Dependency:

A material portion of the Company's business is dependent on certain domestic customers, the loss of which could have a material effect on operations. During the nine months ended November 30, 2008, approximately 31.0% of sales were to three customers. During the nine months ended November 30, 2007, approximately 37.9% of sales were to three customers, two of these customers, located in the Eastern United States, accounted for 30.0% of sales.

NOTE F – Rental Income Under Sublease:

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

NOTE G – Research and Development:

The Company has developed substantial research and development capability. The Company's efforts are devoted to (i) developing new products to satisfy defined market needs, (ii) providing quality technical services to assure the continued success of its products for its customers' applications, (iii) providing technology for improvements to its products, processes and applications, and (iv) providing support to its manufacturing plant for cost reduction, productivity and quality improvement programs. Expenditures for Company sponsored product research and product development of \$342,611 and \$295,584 were included in cost of sales for the nine months ended November 30, 2008 and 2007, respectively. Expenditures for fiscal year 2009 are projected to remain at approximately the same level as in fiscal 2008.

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 \$40,905 and \$41,116 for the nine months ended November 30, 2008 and 2007, respectively.

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

NOTE H – Employee Benefits (continued):

Stock Option Plan – The Company adopted the 1998 Stock Option Plan on December 1, 1998. Under the terms of the plan, the Company reserved 750,000 shares of common stock for issuance pursuant to the exercise of options to be granted under the Plan, which do not meet the requirements of Section 422 of the Code. On September 15, 2001, the Board of Directors increased the reserve to 1,500,000. Options granted expire five or ten years after the date granted and are subject to various vesting periods as follows: (1) none exercisable prior to the first anniversary of the date of grant, and (2) certain options will become exercisable as to 50% of the shares underlying the option on each of the first and second anniversaries of the date granted (3) certain options will become exercisable as to 50% of the shares underlying the option on each of the second and fourth anniversaries of the date granted. From inception through November 30, 2008, options granted totaled 1,242,000, options exercised totaled 686,000, options cancelled or expired for all years totaled 240,000.

A summary of the status of the Company’s 1998 stock option plan as of November 30, 2008, and the changes during the nine months ended November 30, 2008 is presented below:

<u>Fixed Options:</u>	<u>Shares</u>	<u>Weighted-Average Exercise Price</u>
Balance – February 29, 2008	<u>316,000</u>	\$.50
Balance – November 30, 2008	<u>316,000</u>	\$.50
Exercisable at November 30, 2008	<u>316,000</u>	

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 year ended February 28, 2007.

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

NOTE H – Employee Benefits (continued):

Stock Option Plans - The following table summarizes information about fixed stock options outstanding at November 30, 2008:

<u>Range of Exercise Price</u>	<u>Outstanding Options</u>		<u>Exercisable Options</u>	
	<u>Number Outstanding at 11/30/08</u>	<u>Weighted-Average Remaining Contractual Life</u>	<u>Number Exercisable at 11/30/08</u>	<u>Weighted-Average Exercise Price</u>
\$.41	116,000	5.2	116,000	.41
.51	100,000	0.9	100,000	.51
.54	200,000	1.6	200,000	.54

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 will terminate, 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.

The purpose of the Plan is to provide officers, other employees and directors of, and consultants to, us and our subsidiaries (including key employees of companies that develop products that we intend to publish or distribute) an incentive to (a) enter into and remain in our service or that of our subsidiaries or to provide services to us or our subsidiaries, (b) enhance our long term performance and that of our subsidiaries, and (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 on September 1 of each year, commencing September 1, 2008, each person who serves as a Director on such date shall automatically receive a stock award of 25,000 shares of Common Stock. The dollar value of the shares of Common Stock to be granted on September 1 of each year is calculated based upon the fair market value of our Common Stock at the date of grant.

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

NOTE H – Employee Benefits (continued):

Stock Option and Stock-Based Compensation Plan

In connection with this plan, compensation in the amount of \$28,000 was charged to selling, general and administrative expenses for the nine months ended November 30, 2008.

NOTE I – Segment Reporting:

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

Sales by geographic area are as follows:

	Nine Months Ended	
	November 30,	
	2008	2007
United States	\$ 1,724,971	2,231,348
Asia	435,500	371,177
Europe	336,445	158,393
Other nations	600	250
	<hr/>	<hr/>
Total	\$ 2,497,516	2,761,168

Two customers, located in the United States and Asia, accounted for more than 10% of revenues from continuing operations. These customers accounted for 21.7% of sales of infrared dies.

Long-lived assets include net plant, property and equipment. The Company had long-lived assets of \$850,858 and \$854,724 located in the United States at November 30, 2008 and February 29, 2008, 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, 2008 and February 29, 2008, respectively:

	November 30, 2008	February 29, 2008
Commissions	\$ 14,622	-
Purchases	-	12,330
Salaries	19,880	-
Employment agreement	199,801	225,000
Rent	8,145	-
Professional fees	6,000	28,000
Pension contribution	<u>10,900</u>	<u>5,425</u>
Total accrued expenses	<u>\$ 259,348</u>	<u>270,755</u>

NOTE K - Inventories:

	November 30, 2008	February 29, 2008
Raw materials and supplies	\$ 183,697	123,286
Work in process	122,452	45,379
Finished goods	409,289	473,864
Total	<u>\$ 715,438</u>	<u>642,529</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		Nine Months Ended	
	November 30,		November 30,	
	2008	2007	2008	2007
Basic Earnings Per Common Share:				
Net income	\$ 74,981	217,914	\$ 330,820	567,554
Average common shares outstanding	12,066,355	11,966,355	11,999,446	11,966,355
Basic earnings per common share	\$ 0.01	0.02	\$ 0.03	0.05
Diluted Earnings Per Common Share:				
Net income	\$ 74,981	217,914	\$ 330,820	567,554
Average common shares outstanding	12,066,355	11,966,355	11,999,446	11,966,355
Common shares issuable with respect to options issued to employees with a dilutive effect	40,436	37,069	40,436	37,069
Total diluted common shares outstanding	12,106,791	12,003,424	12,039,882	12,003,424
Diluted earnings per common share	\$ 0.01	0.02	\$ 0.03	0.05

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

NOTE M – Commitments and Contingencies:

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

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

Rental expense charged to operations, eliminated in consolidation, amounted to \$73,305 for the nine months ended November 30, 2008 and 2007, respectively.

Future minimum payments for the current option period:

Fiscal Years Ending February:

2009	\$24,435
2010	97,740
2011	65,160

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

In connection with this agreement, compensation in the amount of \$5,031 and \$5,171 was charged to selling, general and administrative expenses for the nine months ended November 30, 2008 and 2007, respectively.

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

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

NOTE M – Commitments and Contingencies (continued):

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

Murray S. Cohen, PhD, Chairman of the Board - To be paid an annual salary of not less than the greater of his annual base salary in effect immediately prior to the effective date of the agreement or any subsequently established annual base salary. Dr. Cohen is to receive 2.00% on gross annual sales of no more than \$3,000,000, effective with the year ended February 28, 2000, increasing by 0.25% a year during the term of the agreement. In the event of partial retirement, (50% employment), Dr. Cohen will receive fifty percent salary and 100% additional compensation. In the event of substantial retirement, (25% employment), Dr. Cohen will receive 25% percent salary and 100% additional compensation. In the event of full retirement, Dr. Cohen will receive 50% additional compensation. In the event of death or disability, while fully employed during the fiscal year, Dr. Cohen or his estate will receive 100% of his annual salary plus additional compensation as described above, and 50% of his annual salary plus additional compensation each subsequent year for the remainder of the ten-year term. If at the time of death or disability Dr. Cohen was retired, then other percentage rates are provided for based upon his retirement status.

James Ivchenko, President - To be paid an annual salary of not less than the greater of his annual base salary in effect immediately prior to the effective date of the agreement or any subsequently established annual base salary. He is to receive 1.5% on gross annual sales of no more than \$3,000,000, effective with the year ended February 28, 2000, increasing by 0.25% a year during the term of the agreement. In the event of death or disability during the fiscal year, Mr. Ivchenko or his estate will receive 100% of his annual salary plus additional compensation as described above, and 50% of his annual salary plus additional compensation each subsequent year for the remainder of the ten-year term.

Accrued compensation included in selling, general and administrative as of November 30, 2008 and 2007 was \$199,801 and \$207,088, 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, 2006. The term net income shall mean consolidated net income after taxes but before any extraordinary items. For subsequent fiscal years, the employee shall be eligible for cash bonuses in such amounts as determined by the Compensation Committee.

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

NOTE N - Fair Value Measurements:

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

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

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

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

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

	<u>As of November 30, 2008</u>			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Fair Value</u>
<u>Assets:</u>				
Cash and cash equivalents	\$1,624,467	-	-	\$1,624,467
Other assets:				
Cash value – life insurance	<u>209,972</u>	-	-	<u>209,972</u>
Total assets at fair value	<u>\$1,834,439</u>	<u>-</u>	<u>-</u>	<u>\$1,834,439</u>
<u>Liabilities:</u>				
Deferred compensation	<u>\$ -</u>	<u>251,712</u>	<u>-</u>	<u>\$ 251,712</u>

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

NOTE N – Dividends:

In July 2008, the Company's Board of Directors declared a cash dividend of \$0.04 per share on all common shares outstanding. The dividend, in the amount of \$478,654 was paid on August 7, 2008 to shareholders of record at the close of business on July 24, 2008.

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

In October 2007, the Company's Board of Directors declared a special cash dividend of \$0.02 per share on all common shares outstanding to be payable on January 7, 2008 to shareholders of record at the close of business on December 20, 2007.

In April 2007, the Company's Board of Directors declared a cash dividend of \$0.02 per share on all common shares outstanding. The dividend, in the amount of \$239,327 was paid on May 14, 2007 to shareholders of record at the close of business on April 30, 2007.

NOTE O – Environmental Matters

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

CERTIFICATION

I, Greg Amato, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Epolin, Inc.;
2. Based on my knowledge, this report does not contain any untrue statements of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation;
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonable likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: January 12, 2009

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

CERTIFICATION

I, James Ivchenko, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Epolin, Inc.;
2. Based on my knowledge, this report does not contain any untrue statements of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation;
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonable likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: January 12, 2009

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

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

In connection with the Quarterly Report of Epolin, Inc. (the "Company") on Form 10-Q for the period ended November 30, 2008, 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 12, 2009

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

Dated: January 12, 2009

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