

ePhoto Image, Inc.
Form 10-Q
September 22, 2011

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 **July 31, 2011**

Transition Report pursuant to 13 or 15(d) of the Securities Exchange Act of 1934

For the transition period to _____

Commission File Number: **333-165074**

ePhoto Image, Inc.

(Exact name of Registrant as specified in its charter)

Nevada N/A
(State or other jurisdiction of incorporation or organization) (IRS Employer Identification No.)

No. 181 Dragon Villas,

No. 8 Shun An Nan Road

Shunyi County, Beijing, China

(Address of principal executive offices)

0086-137-175-28189
(Registrant's telephone number)

(Former name, former address and former fiscal year, if changed since last report)

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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 issuer was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 229.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company.

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

Indicate by check mark whether the registrant is a shell company (as defined in 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:
7,750,000 as of September 21, 2011.

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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

Our financial statements included in this Form 10-Q are as follows:

F-1 Balance Sheets as of July 31, 2011 and April 30, 2011 (unaudited);

F-2 Statements of Operations for the three months ended July 31, 2011 and 2010 and period from September 21, 2007 (Inception) through July 31, 2011 (unaudited);

F-3 Statements of Cash Flows for the three months ended July 31, 2011 and 2010 and period from September 21, 2007 (Inception) through July 31, 2011 (unaudited); and

F-4 Notes to Financial Statements.

These financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and the SEC instructions to Form 10-Q. In the opinion of management, all adjustments considered necessary for a fair presentation have been included. Operating results for the interim period ended July 31, 2011 are not necessarily indicative of the results that can be expected for the full year.

Table of Contents**EPHOTO IMAGE INC.**

(A DEVELOPMENT STAGE COMPANY)

BALANCE SHEETS (unaudited)**As of July 31, 2011 and April 30, 2011**

	July 31, 2011	April 30, 2011
ASSETS		
Current assets		
Cash	\$2	\$2
Total current assets	2	2
 Total assets	 \$2	 \$2
 LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)		
LIABILITIES		
Current Liabilities		
Accounts payable and accrued expenses	\$44,049	\$30,271
Shareholder's loan- Note 5	23,351	23,351
Total Current Liabilities	67,400	53,622
Total Liabilities	67,400	53,622
 STOCKHOLDERS' EQUITY (DEFICIT):		
Common stock, \$.001 par value, 90,000,000 common shares		
7,750,000 common shares issued and outstanding	7,750	7,750
10,000,000 preferred shares authorized, -0- shares issued and outstanding	—	—
Additional paid in capital	42	42
Deficit accumulated during the Development stage	(75,190)	(61,412)
Total stockholders' equity (deficit)	(67,398)	(53,620)
 TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)	 \$2	 \$2

See accompanying notes to financial statements.

Table of Contents**EPHOTO IMAGE INC.**

(A DEVELOPMENT STAGE COMPANY)

STATEMENTS OF OPERATIONS (unaudited)**Three months ended July 31, 2011 and 2010****For the period from September 21, 2007 (Date of Inception) through July 31, 2011**

	Three months ended July 31, 2011	Three months ended July 31, 2010	Period from September 21, 2007 (Inception) to July 31, 2011
Expenses:			
Professional fees	\$13,778	\$4,766	\$70,110
Registration and filing fees	—	2,206	765
General and administrative expenses	—	—	1,580
Total operating expenses	13,778	6,972	72,455
Loss from operations	(13,778)	(6,972)	(72,455)
Other income (expense)	—	—	(2,735)
Loss prior to income taxes	(13,778)	(6,972)	(75,190)
Provision for income taxes	—	—	—
Net loss	\$(13,778)	\$(6,972)	\$(75,190)
Net loss per share:			
Basic and diluted	\$(0.00)	\$(0.00)	
Weighted average shares outstanding:			
Basic and diluted	7,750,000	7,750,000	

See accompanying notes to financial statements.

Table of Contents**EPHOTO IMAGE INC.**

(A DEVELOPMENT STAGE COMPANY)

STATEMENTS OF CASH FLOWS (unaudited)**For the three months ended July 31, 2011 and 2010****For the period from September 21, 2007 (Date of Inception) through July 31, 2011**

	Three months ended July 31, 2011	Three months ended July 31, 2010	Period from September 21, 2007 (Inception) to July 31, 2011
CASH FLOWS FROM OPERATING ACTIVITIES			
Net loss and comprehensive loss	\$(13,778)	\$(6,972)	\$(75,190)
Change in non-cash working capital items			
Accounts payable and accrued liabilities	13,778	6,972	44,049
CASH FLOWS USED IN OPERATING ACTIVITIES	—	—	(31,141)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from sale of common stock	—	—	7,792
Advances from shareholder	—	—	23,351
CASH FLOWS FROM FINANCING ACTIVITIES	—	—	31,143
NET INCREASE IN CASH	—	—	2
Cash, beginning of period	2	2	—
Cash, end of period	\$2	\$2	\$2
SUPPLEMENTAL CASH FLOW INFORMATION			
Interest paid	\$—	\$—	
Income taxes paid	\$—	\$—	

See accompanying notes to financial statements.

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EPHOTO IMAGE INC.

(A DEVELOPMENT STAGE COMPANY)

NOTES TO THE FINANCIAL STATEMENTS

July 31, 2011

NOTE 1 - BASIS OF PRESENTATION

The accompanying unaudited interim financial statements of Ephoto Image Inc. have been prepared in accordance with accounting principles generally accepted in the United States of America and the rules of the Securities and Exchange Commission (“SEC”), and should be read in conjunction with the audited financial statements and notes thereto contained in the Company’s registration statement filed with the SEC on Form 10-K. In the opinion of management, all adjustments, consisting of normal recurring adjustments, necessary for the financial statements to be not misleading have been reflected herein. The results of operations for interim periods are not necessarily indicative of the results to be expected for the full year. Notes to the financial statements which would substantially duplicate the disclosure contained in the audited financial statements for the most recent fiscal year 2011 as reported in Form 10-K, have been omitted.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Business

Ephoto Image Inc. (“Ephoto” or the “Company”) was incorporated in Nevada on September 21, 2007. Ephoto is a Development stage company and has not yet realized any revenues from its planned operations.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the balance sheet. Actual results could differ from those estimates.

Basic Loss Per Share

Basic loss per share has been calculated based on the weighted average number of shares of common stock outstanding during the period.

Comprehensive Income

The Company has adopted SFAS 130 “Reporting Comprehensive Income”, which establishes standards for reporting and display of comprehensive income, its components and accumulated balances. When applicable, the Company would disclose this information on its Statement of Stockholders’ Equity. Comprehensive income comprises equity except those resulting from investments by owners and distributions to owners. The Company has not had any significant transactions that are required to be reported in other comprehensive income.

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EPHOTO IMAGE INC.

(A DEVELOPMENT STAGE COMPANY)

NOTES TO THE FINANCIAL STATEMENTS

July 31, 2011

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income Tax

Ephoto follows SFAS 109, "Accounting for Income Taxes." Deferred income taxes reflect the net effect of (a) temporary difference between carrying amounts of assets and liabilities for financial purposes and the amounts used for income tax reporting purposes, and (b) net operating loss carryforwards. No net provision for refundable Federal income tax has been made in the accompanying statement of loss because no recoverable taxes were paid previously. Similarly, no deferred tax asset attributable to the net operating loss carryforward has been recognized, as it is not deemed likely to be realized.

Cash and Cash Equivalents

The Company considers all highly liquid investments with the original maturities of three months or less to be cash equivalents

Recent Accounting Pronouncements

Ephoto does not expect the adoption of recently issued accounting pronouncements to have a significant impact on the Company's results of operations, financial position or cash flow.

NOTE 3 - GOING CONCERN

Ephoto has recurring losses and has a deficit accumulated during the development stage of \$75,190 as of July 31, 2011. Ephoto's financial statements are prepared using the generally accepted accounting principles applicable to a going concern, which contemplates the realization of assets and liquidation of liabilities in the normal course of business. However, Ephoto has no current source of revenue. Without realization of additional capital, it would be unlikely for Ephoto to continue as a going concern. Ephoto's management plans on raising cash from public or private debt or equity financing, on an as needed basis and in the longer term, revenues from the acquisition, Development and development of mineral interests, if found. Ephoto's ability to continue as a going concern is dependent on these additional cash financings, and, ultimately, upon achieving profitable operations.

NOTE 4 – INCOME TAXES

The provision for Federal income tax consists of the following:

	July 31, 2011	July 31, 2010
Federal income tax benefit attributable to:		
Current operations	\$4,685	\$2,370
Less: valuation allowance	(4,685)	(2,370)
Net provision for Federal income taxes	\$—	\$—

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EPHOTO IMAGE INC.

(AN DEVELOPMENT STAGE COMPANY)

NOTES TO THE FINANCIAL STATEMENTS

July 31, 2011

NOTE 4 – INCOME TAXES (continued)

The cumulative tax effect at the expected rate of 34% of significant items comprising our net deferred tax amount is as follows:

	July 31, 2011
Deferred tax asset attributable to:	
Net operating loss carryover	\$25,565
Less: valuation allowance	(25,565)
Net deferred tax asset	\$—

At July 31, 2011, Ephoto had an unused net operating loss carryover approximating \$75,200 that is available to offset future taxable income; it expires beginning in 2029.

NOTE 5 – ADVANCES FROM SHAREHOLDER

During the year ended April 30, 2011 the company received advances from a shareholder of \$7,450. The advances are non interest bearing and have no specified terms of repayment. The total due to the shareholder was \$23,351 as of July 31, 2011.

NOTE 6 – COMMON STOCK

At inception, Ephoto issued 5,600,000 shares of stock to its founding shareholder for \$5,600 cash.

During the year ended April 30, 2009, Ephoto issued 2,150,000 shares of stock for \$2,192 cash.

NOTE 7 – COMMITMENTS

Ephoto neither owns nor leases any real or personal property, an officer has provided office services without charge. Such costs are immaterial to the financial statements and accordingly are not reflected herein. The officers and directors are involved in other business activities and most likely will become involved in other business activities in the future.

NOTE 8 – SUBSEQUENT EVENTS

The Company has analyzed its operations subsequent to July 31, 2011 through September 22, 2011, the date these financial statements were issued, and has determined that it does not have any material subsequent events to disclose in these financial statements.

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Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations

Forward-Looking Statements

Certain statements, other than purely historical information, including estimates, projections, statements relating to our business plans, objectives, and expected operating results, and the assumptions upon which those statements are based, are “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995, Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. These forward-looking statements generally are identified by the words “believes,” “project,” “expects,” “anticipates,” “estimates,” “intends,” “strategy,” “plan,” “may,” “will,” “would,” “will be,” “will continue,” “will likely result,” and similar expressions. V such forward-looking statements to be covered by the safe-harbor provisions for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995, and are including this statement for purposes of complying with those safe-harbor provisions. Forward-looking statements are based on current expectations and assumptions that are subject to risks and uncertainties which may cause actual results to differ materially from the forward-looking statements. Our ability to predict results or the actual effect of future plans or strategies is inherently uncertain. Factors which could have a material adverse affect on our operations and future prospects on a consolidated basis include, but are not limited to: changes in economic conditions, legislative/regulatory changes, availability of capital, interest rates, competition, and generally accepted accounting principles. These risks and uncertainties should also be considered in evaluating forward-looking statements and undue reliance should not be placed on such statements. We undertake no obligation to update or revise publicly any forward-looking statements, whether as a result of new information, future events or otherwise. Further information concerning our business, including additional factors that could materially affect our financial results, is included herein and in our other filings with the SEC.

Overview

We were incorporated as “ePhoto Image Inc.” (“ePhoto”) on September 21, 2007, in the State of Nevada for the purpose of developing digital image transaction software and a website through which visual artists can sell original photographic content specifically to both low-end and high-end users of stock photographic images, such as newsletter and magazine publishers and website designers based primarily in Asia. We hope that such a website, once established, will provide photographers, illustrators, graphic designers, animators, cinematographers and other visual artists a low-priced, online venue to sell their work to users of stock photographic images. Unlike many stock image houses presently operating in the market, our objective is to not purchase large portfolios of stock images from a select group of established photographers. Instead, we intend that photographers affiliated with our company will maintain ownership of their stock images. We plan to generate revenue by charging affiliate photographers a commission on the images they sell through our website. The images sold on our website will primarily feature Asian themes. We are currently in the process of designing and developing our software and our website, which will utilize the software to manage our database of images, display available images, and manage all associated transactions. We are continually refining this software and our website through research and trial runs. When we are satisfied that our software, website, and products will compete effectively in the Visual Content Industry by being the most cost-efficient and accessible software and website to offer a diverse selection of images from Asia, we will conduct the public launch of

the website for use by visual artists and their potential customers.

We have not successfully launched our website or generated any revenues to date. The success of our business is dependent on building our website, acquiring artist images, and making commission from sales of artwork on our website. If we are unable to successfully implement our business plan, our business will fail and you will lose your entire investment in our company.

Our offices are located at No. 181 Dragon Villas, No. 8 Shun An Nan Road, Shunyi County, Beijing, China. Our telephone number is 0086-137-175-28189.

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Results of Operations for the Three Months Ended July 31, 2011 and 2010 and Period from September 21, 2007 (Date of Inception) until July 31, 2011

We generated no revenue for the period from September 21, 2007 (Date of Inception) until July 31, 2011.

Our operating expenses during the three months ended July 31, 2011 were \$13,778, compared with \$6,972 for the same period ended July 31, 2010. Our operating expenses from September 21, 2007 (Date of Inception) to July 31, 2011 were \$72,455. Our operating expenses for all periods were attributable to professional fees, registration and filing fees and general and administrative expenses.

We, therefore, recorded a net loss of 13,778 for the three months ended July 31, 2011, compared with a net loss of \$6,972 for the three months ended July 31, 2010. We had a net loss of \$75,190 for the period from September 21, 2007 (Date of Inception) until July 31, 2011.

We anticipate our operating expenses will increase as we undertake our plan of operations. The increase will be attributable to the continued development of our Product and the professional fees associated with our becoming a reporting company under the Securities Exchange Act of 1934.

Liquidity and Capital Resources

As of July 31, 2011, we had total current assets of \$2. We had \$67,400 in current liabilities as of July 31, 2011. Thus, we had a working capital deficit of \$67,398 as of July 31, 2011.

Operating activities used \$31,141 for the period from September 21, 2007 (Date of Inception) until July 31, 2011. Our net loss of \$75,190 offset by \$44,049 in accounts payable and accrued liabilities resulted in our negative operating cash flow. Financing Activities during the period from September 21, 2007 (Date of Inception) until July 31, 2011 generated \$31,143 in cash during the period, represented by \$7,792 received from the sale of common stock and \$23,351 received from officer advances.

We expect to spend approximately \$20,000 to implement our business plan over the coming year. Our accounting, legal and administrative expenses for the next twelve months are anticipated to be \$30,000.

As of July 31, 2011, we have insufficient cash to operate our business at the current level for the next twelve months and insufficient cash to achieve our business goals. The success of our business plan beyond the next 12 months is contingent upon us obtaining additional financing. We intend to fund operations through debt and/or equity financing arrangements, which may be insufficient to fund our capital expenditures, working capital, or other cash requirements. We do not have any formal commitments or arrangements for the sales of stock or the advancement or loan of funds at this time. There can be no assurance that such additional financing will be available to us on acceptable terms, or at all.

Off Balance Sheet Arrangements

As of July 31, 2011, there were no off balance sheet arrangements.

Going Concern

We have incurred losses since inception, have negative working capital, and have not yet received revenues from sales of products or services. These factors create substantial doubt about our ability to continue as a going concern. The financial statements do not include any adjustment that might be necessary if we are unable to continue as a going concern.

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Our ability to continue as a going concern is dependent on generating cash from the sale of our common stock and/or obtaining debt financing and attaining future profitable operations. Management's plans include selling our equity securities and obtaining debt financing to fund our capital requirement and ongoing operations; however, there can be no assurance we will be successful in these efforts.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

A smaller reporting company is not required to provide the information required by this Item.

Item 4T. Controls and Procedures

Disclosure Controls and Procedures

We carried out an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) as of July 31, 2011. This evaluation was carried out under the supervision and with the participation of our Chief Executive Officer and our Chief Financial Officer. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that, as of July 31, 2011, our disclosure controls and procedures were not effective due to the presence of material weaknesses in internal control over financial reporting.

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the company's annual or interim financial statements will not be prevented or detected on a timely basis. Management has identified the following material weaknesses which have caused management to conclude that, as of July 31, 2011, our disclosure controls and procedures were not effective: (i) inadequate segregation of duties and effective risk assessment; and (ii) insufficient written policies and procedures for accounting and financial reporting with respect to the requirements and application of both US GAAP and SEC guidelines.

Remediation Plan to Address the Material Weaknesses in Internal Control over Financial Reporting

Our company plans to take steps to enhance and improve the design of our internal controls over financial reporting. During the period covered by this quarterly report on Form 10-Q, we have not been able to remediate the material weaknesses identified above. To remediate such weaknesses, we plan to implement the following changes during our fiscal year ending April 30, 2012: (i) appoint additional qualified personnel to address inadequate segregation of duties and ineffective risk management; and (ii) adopt sufficient written policies and procedures for accounting and financial reporting. The remediation efforts set out are largely dependent upon our securing additional financing to cover the costs of implementing the changes required. If we are unsuccessful in securing such funds, remediation efforts may be adversely affected in a material manner.

We are unable to remedy our controls related to the inadequate segregation of duties and ineffective risk management until we receive financing to hire additional employees.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting during the three months ended July 31, 2011 that have materially affected, or are reasonable likely to materially affect, our internal control over financial reporting.

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PART II – OTHER INFORMATION

Item 1. Legal Proceedings

We are not a party to any pending legal proceeding. We are not aware of any pending legal proceeding to which any of our officers, directors, or any beneficial holders of 5% or more of our voting securities are adverse to us or have a material interest adverse to us.

Item 1A. Risk Factors

A smaller reporting company is not required to provide the information required by this Item.

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

None

Item 3. Defaults upon Senior Securities

None

Item 4. (Removed and Reserved)

Item 5. Other Information

None

Item 6. Exhibits

Exhibit Number	Description of Exhibit
31.1	<u>Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</u>
31.2	<u>Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</u>
32.1	<u>Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</u>
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SIGNATURES

In accordance with the requirements of the Securities and Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

ePhoto Image, Inc.

Date: September 21, 2011

/s/ Petra Jaeger

By:

Petra Jaeger

Title: **Chief Executive Officer and Director**

