

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

☒ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended **September 30, 2010**

OR

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _____ to _____

Eternal Image, Inc.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation)

000-18889

(Commission File Number)

20-4433227

(IRS Employer Identification No.)

28800 Orchard Lake Road, Suite 130, Farmington, Hills, MI

(Address of principal executive offices)

48334

(Zip Code)

248-932-3333

(Registrant's telephone number, including area code)

N/A

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

Indicate by check mark whether the registrant (1) has filed all documents and reports required to be filed by Sections 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 filings for the past 90 days. **YES ☒ NO ☐**

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). **☐ Yes ☒ No N/A**

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

☐

(Do not check if a smaller reporting company)

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 ☒**

APPLICABLE ONLY TO CORPORATE ISSUERS:

As of September 30, 2010, the number of the Company's shares of par value, \$0.001, common stock outstanding was 714,604,135.

EXPLANATORY NOTE:

**THE FINANCIAL STATEMENTS INCLUDED HEREIN HAVE NOT BEEN AUDITED NOR REVIEWED BY AN
INDEPENDENT ACCOUNTING FIRM.**

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PART I - FINANCIAL INFORMATION

ITEM 1 - FINANCIAL STATEMENTS

ETERNAL IMAGE, INC. (A DELAWARE CORPORATION) BALANCE SHEETS

	ASSETS	
	September 30, 2010 (Unaudited)	December 31, 2009 (Audited)
Current Assets:		
Cash	\$ 906	\$ 2,102
Accounts Receivable, net of allowance of \$20,000 and \$10,000 respectively	39,678	13,016
Inventories	450,546	513,900
Total Current Assets	491,130	529,018
Fixed Assets:		
Furniture, Office Equipment, Molds, Tooling and and Dies, and Design Fees, net	29,858	48,185
Other Assets:		
Other Assets, net	-	(3,494)
Total Other Assets	-	(3,494)
Total Assets	\$ 520,988	\$ 573,709
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)		
Current Liabilities:		
Accounts Payable and Accrued Expenses	\$ 1,643,325	\$ 1,301,346
Notes Payable, Current Portion	457,110	452,947
Total Current Liabilities and Total Liabilities	2,100,435	1,754,293
Stockholders' Equity (Deficit)		
Preferred Stock - \$.001 par value: 50,000,000 and 220,000,000 shares authorized, issued and outstanding as of December 31, 2009 and 2008 respectively.	50,000	50,000
Common Stock - \$.001 par value: 750,000,000 shares authorized 714,604,135 and 672,386,666 shares issued and outstanding as of September 30, 2010, and December 31, 2009	715,673	672,387
Discount on Stock	(4,853)	(4,853)
Additional Paid in Capital	19,800,464	19,593,389
Accumulated Deficit	(16,989,931)	(16,340,706)
Accumulated Deficit During Development Stage	(5,150,801)	(5,150,801)
Total Stockholders' Equity (Deficit)	(1,579,448)	(1,010,584)
Total Liabilities and Stockholders' Equity (Deficit)	\$ 520,988	\$ 573,709

See accompanying notes to these interim financial statements.

ETERNAL IMAGE, INC. (A DELAWARE CORPORATION)
STATEMENTS OF OPERATIONS

	Quarter Ended September 30, 2010	Quarter Ended September 30, 2009
	<u>(Unaudited)</u>	<u>(Unaudited)</u>
Revenue	\$ 89,346	\$ 73,929
Cost of Goods Sold	<u>(56,839)</u>	<u>(58,331)</u>
Gross Profit	\$ 32,507	\$ 15,598
Operating Expenses:		
Salaries	51,250	(27,435)
Stock Based Compensation	-	47,269
Travel and Entertainment	-	-
Professional Fees	28,696	344,268
Payroll Taxes and Employee Benefits	575	2,971
Consulting Fees and Commissions	6,090	-
Rent	13,767	10,193
Public Relations and Marketing	3,293	(496)
Product Licensing and Royalties	63,641	7,500
General and Administrative	19,194	60,506
Depreciation and Amortization	<u>7,302</u>	<u>12,653</u>
Total Operating Expenses	<u>193,806</u>	<u>457,430</u>
Loss Before Other Income and (Expense)	(161,299)	(441,832)
Other Income (Expenses):		
Bad Debt Expense	(399)	(10,000)
Interest Expense	(8,779)	909
Total Other Income (Expenses)	<u>(9,178)</u>	<u>(9,091)</u>
Net Loss	\$ <u><u>(170,477)</u></u>	\$ <u><u>(450,922)</u></u>
Basic and diluted net loss per common share	\$ (0.00)	\$ (0.01)
Weighted average common shares outstanding	192,459,469	68,181,826

See accompanying notes to these interim financial statements.

ETERNAL IMAGE, INC. (A DELAWARE CORPORATION)
STATEMENTS OF OPERATIONS

	Nine Months Ending September 30, 2010 (Unaudited)	Nine Months Ending September 30, 2009 (Unaudited)
Revenue	\$ 197,923	\$ 284,432
Cost of Goods Sold	<u>(133,682)</u>	<u>(187,031)</u>
Gross Profit	\$ 64,241	\$ 97,402
Operating Expenses:		
Salaries	153,772	115,765
Common Stock Issued for Fees & Services	13,600	257,729
Stock Based Compensation	-	163,807
Travel and Entertainment	3,155	1,971
Professional Fees	102,687	251,415
Payroll Taxes and Employee Benefits	7,628	6,256
Consulting Fees and Commissions	15,557	24,669
Rent	40,825	39,600
Public Relations and Marketing	9,671	91,981
Product Licensing and Royalties	166,486	45,000
General and Administrative	47,395	142,420
Bad Debts	2,893	10,000
Depreciation and Amortization	21,905	38,417
Total Operating Expenses	<u>585,574</u>	<u>1,189,029</u>
Loss Before Other Income and (Expense)	(521,333)	(1,091,628)
Other Income (Expenses):		
Loss on Conversion of Securities	-	(2,878,614)
Interest Expense	<u>(132,743)</u>	<u>(81,199)</u>
Total Other Income (Expenses)	<u>(132,743)</u>	<u>(2,969,813)</u>
Net Loss	\$ <u><u>(654,076)</u></u>	\$ <u><u>(4,051,441)</u></u>
Basic and diluted net loss per common share	\$ (0.03)	\$ (0.05)
Weighted average common shares outstanding	192,459,469	85,278,211

See accompanying notes to these interim financial statements.

ETERNAL IMAGE, INC. (A DELAWARE CORPORATION)
STATEMENTS OF CASH FLOWS

	Nine Months Ended September 30, 2010 (Unaudited)	Nine Months Ended September 30, 2009 (Unaudited)
Cash Flows from Operating Activities:		
Net Loss	\$ (654,076)	\$ (4,051,441)
Adjustments to Reconcile Net Loss to Net Cash		
Used in Operations:		
Loss Common Stock Issued for Debt Conversion	-	2,878,614
Stock Options Expense	-	141,808
Common Stock Issued for Executive Compensation	-	22,000
Common Stock Issued for Fees and Services	-	344,402
Provided by (Used in) Operating Activities:		
Depreciation	21,905	38,417
(Increase) Decrease in:		
Accounts Receivable	171,261	53,223
Inventories	63,354	45,375
Customer Deposits		11,770
Cash Overdraft	-	(33,672)
Advance Royalties	-	(21,500)
Accounts Payable and Accrued Expenses	120,887	346,826
Net Cash Used in Operating Activities	<u>(276,669)</u>	<u>(247,718)</u>
Cash Flows from Financing Activities:		
Proceeds from Sale of Common Stock	250,361	228,600
Proceeds from Loan Payable	11,000	-
Payments on Notes Payable	-	(124,681)
Proceeds from Notes Issued	4,163	110,625
Net Cash Provided by Financing Activities	<u>265,524</u>	<u>214,544</u>
Net (Decrease) Increase in Cash	(1,196)	(33,174)
Cash, Beginning	<u>2,102</u>	<u>34,158</u>
Cash, Ending	<u>\$ 906</u>	<u>\$ 984</u>
Cash Paid During the Year for:		
Interest	\$ 132,743	\$ 1,936
Non-Cash Transactions:		
Retirement of Preferred Stock	\$	\$ 170,000
Surrender of Certificate of Deposit to pay Loan		35,585
Common Stock Issued for Executive Compensation	-	22,000
Common Stock Issued for Other Fees and Services	3,000	344,402
Common Stock Issued for Debt Conversion	-	2,878,614

The accompanying footnotes are an integral part of the financial statements

ETERNAL IMAGE, INC. (A DELAWARE CORPORATION)
NOTES TO FINANCIAL STATEMENTS
FOR THE QUARTER ENDED September 30, 2010
(Unaudited)

Nature of Operations

Eternal Image was incorporated January 31, 2006 in the State of Delaware. Eternal Image, Inc. ("Eternal Image") ("The Company") and is one of the first manufacturers of branded, licensed funerary products for humans and pets and has established it as its one reportable segment. Eternal Image secures license agreements with appropriate brand licensors and develops funerary products (such as caskets, urns, and vaults) using the brand logo and images prominently in the design of the product.

Once a license is secured, Eternal Image works with designers and engineers to create product drawings and prototypes. The prototypes are then approved by the brand license holder. Once approval has been received by the brand licensor, Eternal Image then sends the specifications for that product to its third party manufacturers/suppliers for quotation before a manufacturer/supplier is chosen to commence production. Eternal Image utilizes a distribution network that in turn supplies funeral homes throughout the United States.

From inception until December 31, 2006 the Company was in the development stage and had accumulated a deficit of \$5,150,801. In January, 2007 the Company had achieved planned operations and began generating revenue from sales. For year-ending December 31, 2009, the Company had posted a positive gross-profit figure for the first time.

1. Summary of Significant Accounting Policies:

Basis of Presentation and Principles of Consolidation

These financial statements have been prepared in conformity with (i) accounting principles generally accepted in the United States of America; and (ii) the rules and regulations of the United States Securities and Exchange Commission.

Unaudited Financial Statements

The accompanying financial statements of Eternal Image, Inc. (the Company) have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information, pursuant to the rules and regulations of the Securities and Exchange Commission. Pursuant to such rules and regulations, certain financial information and footnote disclosures normally included in the financial statements have been condensed or omitted. The results for the periods indicated are unaudited, but reflect all adjustments (consisting only of normally recurring adjustments) which management considers necessary for a fair presentation of operating results.

The operating results for the three-month period ending September 30, 2010 are not necessarily indicative of the results that may be expected for the year ended December 31, 2010. These unaudited financial statements should be read in conjunction with the financial statements and footnotes thereto included in the Company's Annual Report on form 10-K for the year ended December 31, 2009.

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 and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Recently Issued Accounting Pronouncements

The company does not anticipate the adoption of recently issued accounting pronouncements to have a significant impact on the Company's results of operations, financial position or cash flows.

ETERNAL IMAGE, INC. (A DELAWARE CORPORATION)
NOTES TO FINANCIAL STATEMENTS
FOR THE QUARTER ENDED September 30, 2010
(Unaudited)

2. Going Concern

The Company has suffered losses from operations that may raise doubt about the Company's ability to continue as a going concern. As of September 30, 2010, the Company has both negative working capital and a stockholders' deficiency. The Company may raise capital through the sale of its equity securities, through debt securities, or through borrowings from financial institutions. Management believes that actions presently being taken to obtain additional funding provide the opportunity for the Company to continue as a going concern. There can be no assurance that additional financing which is necessary for the Company to continue its business will be available to the Company on acceptable terms, or at all. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

3. Long Term Debt

Long term debt consists of the following:

	September 30, 2010	December 31, 2009
8.25% unsecured note payable to Woodrow Browne, in three installments of \$25,000. Final payment was due October, 2007. Note has been extended through December 31, 2010. No periodic payments are required.	50,000	50,000
5% unsecured note payable to Donna Shatter, shareholder and officer of Eternal Image, Inc., in monthly installments of \$959, including interest. Note has been extended through December 31, 2010.	20,178	9,156
Non-Interest bearing note payable to Nick Popravsky, shareholder and officer of Eternal Image, Inc., due on demand.	3,725	1,583
Credit Card Interest rate bearing note payable to James Parliament, a shareholder and former officer of Eternal Image, Inc., due on demand.	46,696	46,696
10% unsecured note payable to Dorenda Boggs, a shareholder of Eternal Image, Inc, payable in full September, 2008. Note has been extended through December 31, 2010. No periodic payments are required.	50,000	50,000
8% unsecured note payable to Emerald Asset Advisors. Note has been extended through December 31, 2010.	10,000	10,000
8% unsecured note payable to Emerald Asset Advisors. Note has been extended through December 31, 2010.	27,000	27,000
8% unsecured note payable to Emerald Asset Advisors. Note has been extended through December 31, 2010.	200,000	200,000
Non-interest bearing note payable to Frank Colapinto. Note has been extended through December 31, 2010.	12,012	12,012
12% unsecured note payable to HighWater Capital. Note was converted to common stock on March 15, 2010.	-	37,000
8% unsecured note payable to Ralph Mizrahi. Note was converted to common stock on March 17, 2010.	-	6,000
10% unsecured note payable to Edward Shatter, a shareholder of Eternal Image payable in full January 2009. The creditor has agreed to an extension of this debit until December 31, 2010.	2,500	2,500
10% unsecured note payable to Devon Block, a shareholder of Eternal Image payable in full 7/12/2010.	25,000	-
0% unsecured note payable to Deb Popravsky, a shareholder of Eternal Image payable in full 12/31/2010.	7,000	-
8% unsecured note payable to Michael Arsenault a shareholder of Eternal Image payable in full 8/25/2010.	3,000	-
Non-interest bearing note payable to Nicholas Popravsky, Jr.. Note was converted to common stock on March 18, 2010	-	1,000
Long Term Debt	\$ 457,111	\$ 452,947

ETERNAL IMAGE, INC. (A DELAWARE CORPORATION)
NOTES TO FINANCIAL STATEMENTS
FOR THE QUARTER ENDED September 30, 2010
(Unaudited)

Maturities of long term debt are as follows:

	September 30, 2010	December 31, 2009
2010	\$457,111	\$452,947
TOTAL	\$457,111	\$452,947

The Company has no financial or non-financial covenants or agreements on any of its debt instruments.

4. Risks and Uncertainties

The Company is subject to risk and uncertainty common to start-up companies including, but not limited to, successful development, promotion, and sale of products, protection of proprietary technology, and expansion of market coverage.

As reflected in the accompanying financial statements, the Company has incurred significant losses from operations and negative operating cash flows, which have been financed primarily by proceeds from stock and debt issuance. As a result the Company had accumulated deficits of approximately \$16,989,931 and \$16,340,706 at September 30, 2010 and December 31, 2009 respectively.

Management plans to provide for additional working capital and funds for the continued development and promotion of its products through public sale of the Company's common stock, debt securities or borrowing from financial institutions.

Management is also attempting to expand its number of third party manufacturers/suppliers to help get better product prices which could increase cash flow during early stages of sales growth. No assurance can be given that the Company will successfully expand its number of third party manufacturers/suppliers.

5. Subsequent Events

The company has evaluated subsequent events from the period September 30, 2010, the date of these financial statements, to the date these are being filed with the Commission.

Pursuant to the requirements of FASB ASC topic 855, there were no events or transactions occurring during this subsequent event reporting period that require recognition or disclosure in the financial statements.

ITEM 2 - MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION

The following should be read in conjunction with the consolidated financial statements of the Company included elsewhere herein.

FORWARD-LOOKING STATEMENTS

When used in this report, the words “may,” “will,” “expect,” “anticipate,” “continue,” “estimate,” “intend,” “plans”, and similar expressions are intended to identify forward-looking statements regarding events, conditions and financial trends which may affect our future plans of operations, business strategy, operating results and financial position. Forward looking statements in this report include without limitation statements relating to trends affecting our financial condition or results of operations, our business and growth strategies and our financing plans.

Such statements are not guarantees of future performance and are subject to risks and uncertainties and actual results may differ materially from those included within the forward-looking statements as a result of various factors. Such factors include, among other things, general economic conditions; cyclical factors affecting our industry; lack of growth in our industry; our ability to comply with government regulations; a failure to manage our business effectively; our ability to sell products at profitable yet competitive prices; and other risks and factors set forth from time to time in our filings with the Securities and Exchange Commission.

Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date made. We undertake no obligation to publicly release the result of any revision of these forward-looking statements to reflect events or circumstances after the date they are made or to reflect the occurrence of unanticipated events.

Overview

We are in the business of manufacturing (through third party manufacturers/suppliers) and marketing of branded, licensed funerary products (such as funeral caskets, urns and covers) for humans and pets. We started our operational phase and began selling product and having revenues in the first quarter of 2007. Prior to this, we were in the development stage trying to creating our own market within the funerary products industry. Management believes that we have no direct competition in this market. We have secured license agreements with appropriate brand licensors and develop funerary products using the brand logo and images prominently in the design of the funerary product. Currently, we have license agreements with such brand name entities as Major League Baseball, Precious Moments, the Vatican Observatory Foundation, Star Trek, The Collegiate Licensing Company (colleges and universities), American Kennel Club, and Cat Fanciers' Association. The long term plans of the Company are to pursue and secure other license arrangements with reputable, household brand names that will be a good fit with our products.

Currently, we produce (through third party manufacturers/suppliers) and market five logo designed products: caskets, urns, vault covers (Major League Baseball and Star Trek), garden memorial stones (American Kennel Club and Cat Fanciers' Association), and cemetery medallions* (Major League Baseball, Star Trek, Precious Moments and Collegiate Licensing Company.) (*A medallion is a solid bronze medallion that is affixed to a headstone.)

In June, 2010, we established a new division known as the New World Gift Company. It's plan is to produce (through third party manufacturers/suppliers) and market retail candles, liturgical candles, registry books, and memorial prayer cards to funeral homes. As of September 30, 2010, we had gross revenues from this division of \$0.00 and a net profit (loss) of (\$3,771).

Overall, we have a twofold marketing strategy. Our primary targets are funeral homes, directors, distributors and funeral home conglomerates to which we sell our products. We reach these targets through the use of independent sales representatives. Our second target is the American public, who we attempt to expose to our products through channel appropriate advertising such as in “Catholic Digest”, “Baseball Digest”, “Dog Fancy Magazine” and public relations positioning efforts.

To date, our revenues have been insufficient to fund our operations, and we anticipate this continuing for the foreseeable future. Accordingly, we have been dependent upon debt and equity financing and will continue to be so.

Recent Developments

On February 16, 2010, we entered into a two year, binding Letter of Understanding (“LOU”) with Mathews International Corporation, a publicly held designer, manufacturer and distributor of memorialization products. The LOU requires Matthews to make certain minimum purchases from the Company during its term. See our Current Report on Form 8-K filed on February 25, 2010.

On February 19, 2010, we entered into a five year sublicensing agreement which grants the Company a sublicense to design, manufacture, and distribute Vatican Observatory collection funerary products. See our Current Report on Form 8-K filed on February 22, 2010.

In June, 2010 we announced the establishment of our new division called New World Gift Company as mentioned above. New World will handle the manufacturing and sales of gift-related funeral items such as candles, prayer cards, and registry books.

Plan of Operation

We did not have revenues during our fiscal years ended December 31, 2005 and 2006, and only began having revenues in the quarter ended March 31, 2007. Prior to us having revenues, our only sources of capital were through the private sale of our securities and loans including loans from officers and directors. Since our reverse merger in February 2006 through December 31, 2009, we have received \$2,170,168 in gross proceeds from the sale of our common stock. For the quarters ending March 31, 2010, June 30, 2010, and September 30, 2010 we received an additional \$82,027, \$17,163, and \$3,000, respectively, in gross proceeds from the sale of our common stock for a total of \$102,190 for the nine months ended September 30, 2010. Similarly, for the quarters ending March 31, 2010, June 30, 2010, and September 30, 2010, we received an additional \$0.00, \$0.00, and \$11,000, respectively, in gross loan proceeds for a total of \$11,000 for the nine months ended September 30, 2010.

As a company in the early stage of developing a new business—the manufacturing and marketing of designer funerary products such as funeral caskets and urns—our primary efforts have been devoted to developing our new business and raising capital. Accordingly, we have limited capital resources and have experienced net losses and negative cash flows from operations since the time of our reverse merger in February 2006 and expect these conditions to continue for the foreseeable future. As of September 30, 2010, the Company had approximately \$491,130 in other current assets. Management believes that cash and other current assets on hand as of September 30, 2010, are not sufficient to fund operations for the next 12 months and will likely be sufficient for only three months. Accordingly, we will be required to raise additional funds to meet our short and long-term planned goals. There can be no assurance that such funds, if available at all, can be obtained on terms reasonable to us. In this regard, we have obtained and will continue to attempt to obtain raise funds through the private sale of our securities and (short and long term) loans for inventory purchases, new product development, expansion, advertising and marketing. We cannot predict if and when we will become profitable and less dependent upon outside financing sources.

Currently, we do not have sufficient financial resources to implement or complete our business plan. We anticipate that we will need a minimum of \$1,500,000 to satisfy our cash requirements over the next 12 months. Since we did not obtain sufficient funding or revenues during the quarter ending September 30, 2010, our minimum of \$1,500,000 in anticipated cash requirements for the next 12 months remains virtually the same as the estimate contained in our Annual Reports (Form 10-K) for the years ended December 31, 2008 and 2009. We cannot be assured that revenue from operations, if any, will be sufficient to fund our activities during the next 12 months. Accordingly, if there is a shortfall of funds, we will have to seek alternate sources of capital, including private placements, a public offering, and/or loans from officers and/or third party lenders. We can offer no assurance that we will be able to raise additional funds if needed, on acceptable terms to us on a timely

basis or otherwise. If we are unsuccessful in our attempts to raise sufficient capital, we may have to cease operations, seek joint venture partners or postpone our plans to initiate or complete our business plan. In that case, you may lose your entire investment in our company. If the funds become available, we intend to apply, over the next 12 months as follows:

- Funding next wave of production orders for the next 12 months. Estimated Cost: \$830,000
- Commence and establish marketing, advertising and promotion programs to increase brand equity and awareness. Estimated cost: \$150,000.
- Salaries, including for present employees and possible new hiring of additional management personnel and appropriate operating and sales staff. Estimated cost: \$250,000.
- Partial (or full) repayment of loans. Estimated cost: \$120,000.
- Secure additional strategic licenses to support our long term growth strategy. Estimated Cost: \$150,000

These are only estimates and no assurance can be given regarding either statement as to timing or actual eventuality. If more than the minimum amounts indicated above are raised, we anticipate spending increased amounts on establishing and expanding our distribution network, marketing, advertising and promotions.

Results of Operations – *Eternal Image, Inc*

Since the New World Gift Company was only established in June of 2010, the following comparative period information does not include information about the new division. As of September 30, 2010, there have been no sales, no revenues, and total operating and administrative expenses of \$3,771 (net loss).

The following summarizes changes in our operations for the *three-months ended September 30, 2010 and 2009.*

Sales and Cost of Goods Sold

	For three months ended September 30,	
	2010	2009
Sales	\$89,346	\$73,929
Cost of Goods Sold	\$56,839	\$58,331
Gross Profit	\$32,507	\$15,598

Sales. Sales increased by \$15,417 or approximately 17%, from \$73,929 in the three months ended September 30, 2009 to \$89,346 for the three months ended September 30, 2010. This decrease was due to the following factors:

- Increased distribution of urns
- New product availability

Cost of Goods Sold. Cost of goods sold decreased by \$1,492 or approximately 2.6%, from approximately \$59,331 in the three months ended September 30, 2009 to \$56,839 for the three months ended September 30, 2010.

Gross Profit. Gross profit was \$32,507, or approximately 36% of our sales for the three months ended September 30, 2010, compared to gross profit of \$52,573 or 62% for the three months ended September 30, 2009.

Units Sold

	For three months ended September 30,			
	2010	% of total	2009	% of total
Caskets	34	15%	31	15%
Urns	167	75%	74	73%
Medallions	1	1%	27	5%
Vault Covers	21	9%	0	0%
TOTAL	223	100%	132	100%

The reasons for this 91-unit increase in sales for the three months ended September 30, 2010 from the three months ended September 30, 2009 is increased distribution through market awareness with the general public; and from the posting of vault cover sales for the first time.

Operating Expenses

	For three months ended September 30,	
	2010	2009
Operating Expenses	\$167,709	\$267,729
Administrative	\$19,194	\$60,506
Depreciation & Amortization	\$7,302	\$12,653
Total Operating Expenses	\$194,205	\$467,430

Operating Expenses. Operating expenses decreased by \$100,020 or approximately 60%, from \$267,729 in the three months ended September 30, 2009 to \$167,709 for the three months ended September 30, 2010. The primary reasons for this decrease were less staff on hand and less professional fees paid out.

Administrative Expenses. Administrative expenses decreased by \$41,312, or approximately 215% from \$60,506 in the three months ended September 30, 2009 to \$19,194 for the three months ended September 30, 2010. The principal reason for the decrease was there was less staff on hand, and the three officers of the Company continue to forego any salary.

Other Income (Expense). Other Income (Expense) increased \$9,668 or 1,065% to \$(8,779) in the three months ended September 30, 2010 from \$909 in three months ended September 30, 2009. This increase is primarily due to the fact that the Company started paying interest on guaranteed royalties due.

Net Loss. Net Loss decreased \$280,232 or 62% to (\$170,477) in the three months ended September 30, 2010 from (\$450,709) in the three months ended September 30, 2009. This decrease in loss was primarily related to less stock issued for debt conversions.

The following summarizes changes in our operations for the nine-months ended September 30, 2010 and 2009.

Sales and Cost of Goods Sold

	For nine months ended September 30,	
	2010	2009
Sales	\$197,923	\$284,432
Cost of Goods Sold	\$133,682	\$187,031
Gross Profit	\$64,241	\$97,401

Sales. Sales decreased by \$86,509 or approximately 44%, from \$284,432 in the nine months ended September 30, 2009 to \$197,923 for the nine months ended September 30, 2010. This decrease was due to the following factors:

- Quarter1 2009 marked the first quarter that Eternal Image had caskets available to sell. There was an influx of orders in Quarter1 2009 as distributors stocked up on casket models

Cost of Goods Sold. Cost of goods sold decreased by \$53,349 or approximately 40%, from approximately \$187,031 in the nine months ended September 30, 2009 to \$133,682 for the nine months ended September 30, 2010. This decrease was directly related to lower sales volume and the sale of items already paid for that are in inventory.

Gross Profit. Gross profit was \$64,241, or approximately 32% of our sales for the nine months ended September 30, 2010, compared to gross profit of \$81,804 or 34% for the nine months ended September 30, 2009.

Units Sold

For nine months ended September 30,				
	2010	% of total	2009	% of total
Caskets	83	15%	109	23%
Urns	430	79%	320	73%
Medallions	11	3%	39	3%
Vault Covers	31	3%	0	0%
TOTAL	555	100%	468	100%

The reasons for this 87-unit increase in sales for the nine months ended September 30, 2010 from the nine months ended September 30, 2009 is increased distribution through market awareness with the general public; and from the posting of vault cover sales for the first time.

Operating Expenses

For nine months ended September 30,		
	2010	2009
Operating Expenses	\$516,274	\$1,008,192
Administrative	\$47,395	\$142,420
Depreciation & Amortization	\$21,905	\$38,417
Total Operating Expenses	\$585,574	\$1,189,029

Operating Expenses. Operating expenses decreased by \$491,918 or approximately 95%, from \$1,008,192 in the nine months ended September 30, 2009 to \$516,274 for the nine months ended September 30, 2010. The primary reasons for this decrease were less staff on hand and less professional fees paid out.

Administrative Expenses. Administrative expenses decreased by \$95,025, or approximately 200%, from \$142,420 in the nine months ended September 30, 2009 to \$47,395 for the nine months ended September 30, 2010. The principal reason for the increase was there was less staff on hand, and the three officers of the Company continue to forego any salary.

Other Income (Expense). Other Income (Expense) decreased \$2,827,070 or 96% to \$(132,743) in the nine months ended September 30, 2010 from \$(2,959,813) in nine months ended September 30, 2009. This decrease is primarily due to the fact that the Company did not convert as much debt into equity as the previous reporting period.

Net Loss. Net Loss decreased \$3,397,151 or 84% to (\$654,076) in the nine months ended September 30, 2010 from (\$4,051,227) in the nine months ended September 30, 2009. This decrease in loss was primarily related to less stock issued for debt conversions.

Liquidity and Capital Resources

Since our reverse merger in February 2006 through December 31, 2009, we have received \$2,170,168 in gross proceeds from the sale of our common stock. For the quarter ending September 30, 2010, we received an additional \$3,000 in gross proceeds from the sale of our common stock.

As of September 30, 2010, we had \$491,130 of current assets on hand. Also, as of that date, we had accounts payable and accrued expenses of \$1,643,325 including \$352,220 in guaranteed minimum royalty and license payments. In addition, as of September 30, 2010, we had a total notes payable principal balance of \$457,111. To date, we have not been in default under the terms, provisions and/or covenants of said loans.

There are no financial or non-financial covenants with regard to any of the debt instruments. Furthermore, the notes are simple promissory bearing interest ranging from 5% - 20% with accrued interest and principal payable at the end of the term of each note, except that the Shatter note requires monthly payments of interest and principal of \$1,836 and calls for 5% per annum. Each holder of a note with a term that has expired or is expiring in the near future has agreed to an extension under the same terms. Ms. Shatter and Mr. Popravsky, Sr. are officers and directors of the Company, and Mr. Parliament is a former officer of the Company. The notes are as follows:

Note Holder	Note Date	Due Date	Principal Amount
W. Browne**	12/21/2006	3/31/2009	\$50,000
N. Popravsky, Sr.	1/30/2008	3/31/2009	4,100
Emerald Asset Advisors	9/17/09	11/17/2009	10,000
Emerald Asset Advisors	12/01/09	12/15/09	200,000
Emerald Asset Advisors	11/13/09	12/13/09	27,000
Frank Colapinto	12/01/09	12/1/10	12,012
D. Boggs	6/9/2008	3/31/2009	50,000
E. Shatter (1)	10/10/2008	1/10/2009	2,500
D. Shatter	5/8/2008	5/1/2009	15,758
J. Parliament	9/13/2008	12/31/2009	46,696
Deb Popravsky	7/2/2010	12/31/2010	7,000
Michael Arsenault	8/5/2010	12/31/2010	3,000
Devon Block	4/12/2010	7/12/2010	\$25,000
Total			\$457,111

**\$50,000 is the remaining principal balance of this note. The original note amount was \$75,000. However, the Company made a payment toward the principal balance (\$25,000) on August 24, 2007.

⁽¹⁾Edward Shatter is the father of Donna Shatter, the Company's VP of Operations

The cash resources on September 30, 2010, are not sufficient to meet anticipated working capital requirements for at least the next three months. We intend to seek additional funding (debt or equity) for pursuing our business plan, expansion of existing operations or other purposes, or to the extent that our operations do not generate sufficient levels of profitability and cash flow. Should we seek to raise additional capital, there can be no assurances that such capital can be raised on satisfactory terms, on a timely basis, or at all. In the event that we are unable to raise the additional capital (or a significant portion of it) that we require, we will not be able to execute our business plan which may result in the termination of our operations.

Our future capital requirements will depend upon many factors, including the expansion of our business operations.

Currently, because we are a relatively new business with limited credit history, we generally pay for our purchases “up front” (in most cases) and are not granted extended credit terms at this time. This will continue until we have established a satisfactory credit history. We cannot estimate, with any certainty, how long this may take, or if it will occur at all. In this regard, recently, our major supplier has agreed (orally) to allow us to pay for our product supplies “net 30 days”. This has enabled us to utilize these funds for other purposes and improves our liquidity. Our inability to obtain credit from other such providers has a significant impact upon our liquidity and our ability to utilize funds for other purposes. Similarly, if and when we hire additional personnel, including management and sales personnel, the cost related to such hiring’s will have a significant impact on our liquidity and deployment of funds.

Off-Balance Sheet Arrangements

At September 30, 2010, we did not have any transactions, obligations or relationships that could be considered off-balance sheet arrangements.

Critical Accounting Policies and Estimates

Our consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of financial statements in accordance with generally accepted accounting principles requires our management to make estimates and assumptions that affect the reported amounts of assets and liabilities, including the recoverability of tangible and intangible assets, disclosure of contingent assets and liabilities as of the date of the financial statements, and the reported amounts of expenses during the periods covered. A summary of accounting policies that have been applied to the historical financial statements can be found in the notes to our consolidated financial statements.

We evaluate our estimates on an on-going basis. The most significant estimates relate to intangible assets, deferred financing and issuance costs, and the fair value of financial instruments. We base our estimates on historical company and industry experience and on various other assumptions that we believe 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. Our actual results may differ materially from those estimates.

The following is a brief discussion of our critical accounting policies and methods, and the judgments and estimates used by us in their application.

Inventories - Inventories are stated at the lower of cost or market, determined on a average cost basis.

Stock-based Compensation – Under current accounting standards, employee stock awards under the company’s compensation plan are expensed based at fair value.

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

Evaluation of Disclosure Controls and Procedures

As of September 30, 2010, management performed, with the participation of our Chief Executive Officer/Chief Financial Officer (who is the same person), an evaluation of the effectiveness of our disclosure controls and procedures as defined in Rules 13a-15(e) and 15d-15(e) of the Exchange Act. Our disclosure controls and procedures are designed to ensure that information required to be disclosed in the report we file or submit under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the SEC’s forms, and that such information is accumulated and communicated to our management including our Chief Executive Officer/Chief Financial Officer, to allow timely decisions regarding required disclosures. Based

on the evaluation and the identification of the material weaknesses in our internal control over financial reporting described below, our Chief Executive Officer/Chief Financial Officer concluded that, as of December 31, 2009 and September 30, 2010, our disclosure controls and procedures were not effective. The aforementioned material weaknesses were first identified on or about April 13, 2009, by the Company's Chief Financial Officer in connection with the review of our financial statements as of December 31, 2008 and communicated the matters to our management.

Changes in Internal Control over Financial Reporting

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

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS.

None.

ITEM 1A. RISK FACTORS.

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.

The above statement notwithstanding, shareholders and prospective investors should be aware that certain risks exist with respect to the Company and its business, which risks include: its limited assets, lack of revenues and only losses since inception, industry risks, the need for additional capital; risks inherent in obtaining its products; among other factors. The Company management is aware of these risks and has attempted to establish the minimum controls and procedures to insure adequate risk assessment and execution to reduce loss exposure. For more specific detail regarding the risks inherent in an investment in the Company, shareholders and prospective investors are also referred to the "Risk Factors" section of the Company's registration statement filed with the Securities and Exchange Commission on Form SB-2, as amended on Form S-1. See www.sec.gov.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS.

During the three month period ended September 30, 2010, the Company issued the following unregistered securities:

Name	Amount of Principal & Interest on Conversion	Number of Shares
Michael Aresenault	\$3,000 Prom. Note	300,000
Thomas Boccieri	\$7,500 Legal Services	749,999

The securities issuances referred to above were exempt from registration pursuant to Section 4(2) of the Securities Act of 1933, as amended (the "Act").

ITEM 3. DEFAULTS UPON SENIOR SECURITIES.

None

ITEM 4. (Removed and Reserved).

ITEM 5. OTHER INFORMATION.

None

ITEM 6. EXHIBITS.

Exhibit 31.1	Certification required by Rule 13a-14(a) or Rule 15d-14(a) and section 302 of the Sarbanes-Oxley Act of 2002, CEO/CFO
Exhibit 32.1	Certification required by Rule 13a-14(b) or Rule 15d-14(b) and section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350, CEO/CFO

SIGNATURES

Pursuant to the requirements of Section 13 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.

Eternal Image, Inc.
(Registrant)

Date: November 22, 2010

/s/ Clint Mytych

Clint Mytych, President, Chief Financial Officer, Chairman of the Board and Director (Principal Executive and Financial Officer)

Date: November 22, 2010

/s/ Donna Shatter

Donna Shatter, Vice President, Secretary/Treasurer and Director

Date: November 22, 2010

/s/ Nick Popravsky

Wallace "Nick" Popravsky, Vice President and Director

Exhibit 31.1

CERTIFICATION

I, Clint Mytych, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Eternal Image, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement 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. As the registrant's only certifying officer, I am 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; and
 - (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 (fourth quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. As the registrant's only certifying officer, I have disclosed, based on my 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:
 - 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.

Date: November 22, 2010

By: /s/ Clint Mytych

Clint Mytych, Principal Executive Officer and Principal Financial Officer

A signed original of this written statement has been provided to the registrant and will be retained by the registrant to be furnished to the Securities and Exchange Commission or its staff upon request.

Exhibit 32.1

**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 Eternal Image, Inc., (the "Company") on Form 10-Q for the period ending September 30, 2010, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Clint Mytych, Principal Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 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 Eternal Image, Inc..

/s/ Clint Mytych

Clint Mytych, Principal Executive Officer and Principal
Financial Officer

DATE: November 22, 2010

A signed original of this written statement required by Section 906 has been provided to Eternal Image, Inc. and will be retained by Eternal Image, Inc. to be furnished to the Securities and Exchange Commission or its staff upon request.