

Medical Design Studios, Inc.  
Form 10-Q  
May 14, 2010

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

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FORM 10-Q

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(Mark One)

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

For the quarterly period ended March 31, 2010

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE  
SECURITIES EXCHANGE ACT OF 1934

For the transition period from                    to

Commission File Number 333-144596

MEDICAL DESIGN STUDIOS, INC.  
(Exact Name of Registrant as Specified in Its Charter)

Nevada  
(State or Other  
Jurisdiction of  
Incorporation or  
Organization)

26-0482524  
(I.R.S. Employer  
Identification No.)

7231  
South  
Rome            80016  
Street,  
Aurora,  
Colorado  
(Address  
of  
Principal    (Zip  
Executive    Code)  
Offices)

(303) 956-7197  
(Registrant's Telephone  
Number, Including  
Area Code)

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(Former Name, Former Address and Former  
Fiscal Year,  
if Changed Since Last Report)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions 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 in Rule 12b-2 of the Exchange Act). Yes  No

As of May 11, 2010, 7,142,858 shares of the issuer's common stock were outstanding.

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MEDICAL DESIGN STUDIOS, INC.

FORM 10-Q

March 31, 2010

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## PART I - FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS

## MEDICAL DESIGN STUDIOS, INC.

## Balance Sheets

## ASSETS

|  | March 31, 2010<br>(Unaudited) | December<br>31, 2009 |
|--|-------------------------------|----------------------|
| Current Assets:  |                               |                      |
| Cash   | \$ 187                        | \$ 100               |
| Accounts receivable, net of allowance for<br>doubtful accounts of \$30,521 | 11,425                        | 9,025                |
| <b>Total current assets</b>  | <b>11,612</b>                 | <b>9,125</b>         |
| Equipment:   |                               |                      |
| Computer and video equipment   | 29,793                        | 29,793               |
| Accumulated depreciation   | (22,177)                      | (20,470)             |
| Equipment, net   | 7,616                         | 9,323                |
| <b>TOTAL ASSETS</b>  | <b>\$ 19,228</b>              | <b>\$ 18,448</b>     |

## LIABILITIES AND STOCKHOLDERS' EQUITY

|  |                  |                  |
|--|------------------|------------------|
| Current Liabilities  |                  |                  |
| Accrued expenses   | \$ 8,773         | \$ 17,561        |
| Stockholders' Equity:  |                  |                  |
| Preferred stock: \$0.001 par value; 1,000,000<br>shares authorized; no shares issued or<br>outstanding       | -                | -                |
| Common stock: \$0.001 par value; 74,000,000<br>shares authorized; 7,142,946 shares issued and<br>outstanding | 7,143            | 7,143            |
| Additional paid-in capital   | 98,312           | 87,312           |
| Accumulated deficit  | (95,000)         | (93,568)         |
| Total stockholders' equity   | 10,455           | 887              |
| <b>TOTAL LIABILITIES AND<br/>STOCKHOLDERS' EQUITY</b>  | <b>\$ 19,228</b> | <b>\$ 18,448</b> |

See accompanying notes to financial statements.

## MEDICAL DESIGN STUDIOS, INC.

## Statements of Operations

(Unaudited)

|   | Three Months Ended<br>March 31, |           |
|---|---------------------------------|-----------|
|   | 2010                            | 2009      |
| Revenue   | \$ 18,750                       | \$ 13,750 |
| Operating Expenses:   |                                 |           |
| Selling, general and administrative   | 8,865                           | 13,978    |
| Compensation  | 11,317                          | 9,364     |
| Total operating expenses  | 20,182                          | 23,342    |
| Loss from operations  | (1,432)                         | (9,592)   |
| Other income (expense)  |                                 |           |
| Recovery of bad debt  | -                               | 10,000    |
|   | -                               | 10,000    |
| Income (loss) before income taxes   | (1,432)                         | 408       |
| Provision for income taxes  | -                               | -         |
| Net income (loss)   | \$ (1,432)                      | \$ 408    |
| Net loss per share - basic and diluted                                      | \$ (0.00)                       | \$ (0.00) |
| Weighted average number of common<br>shares outstanding – basic and diluted | 7,142,946                       | 7,142,946 |

See accompanying notes to the financial statements.

## MEDICAL DESIGN STUDIOS, INC.

## Statements of Cash Flows

(Unaudited)

|  | Three Months Ended<br>March 31, |                 |
|--|---------------------------------|-----------------|
|  | 2010                            | 2009            |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>   |                                 |                 |
| Net income (loss)  | \$ (1,432)                      | \$ 408          |
| Depreciation   | 1,707                           | 2,596           |
| Recovery of bad debt   | -                               | 10,000          |
| Adjustments to reconcile net income (loss) to net cash used in operating activities: |                                 |                 |
| Increase in accounts receivable  | (2,400)                         | (13,850)        |
| Increase (decrease) in accrued expenses  | (8,788)                         | 846             |
| <b>Net Cash Used in Operating Activities</b>   | <b>(10,913)</b>                 | <b>-</b>        |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>  |                                 |                 |
|  | -                               | -               |
| <b>Net Cash Used in Investing Activities</b>   | <b>-</b>                        | <b>-</b>        |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>  |                                 |                 |
| Contribution to capital  | 11,000                          | -               |
| <b>Net Cash Provided by Financing Activities</b>                                     | <b>-</b>                        | <b>-</b>        |
| <b>CHANGE IN CASH</b>  | <b>87</b>                       | <b>-</b>        |
| <b>CASH AT BEGINNING OF PERIOD</b>   |                                 | <b>4,766</b>    |
| <b>CASH AT END OF PERIOD</b>   | <b>\$ 100</b>                   | <b>\$ 4,766</b> |

See accompanying notes to the financial statements.

MEDICAL DESIGN STUDIOS, INC.

March 31, 2010 and 2009

Notes to Financial Statements

(Unaudited)

NOTE 1 ORGANIZATION

Medical Design Studios, Inc. (“MDS” or the “Company”) was founded as an unincorporated business in January 2004 and became a C corporation in the State of Nevada on February 1, 2005. The Company is a digital medical illustrator and animator providing digital displays and enhancements to companies that assist attorneys to prepare or enhance exhibits for trials involving medical issues. The Company applied 505-10-S99-3 of the FASB Accounting Standards Codification, by reclassifying all of the Company’s undistributed earnings and losses to additional paid-in capital as of December 31, 2004 and the Company was inactive for the month ended January 2005. The accompanying financial statements have been prepared as if the Company had its corporate capital structure as of the first date of the first period presented.

The acquisition of Medical Design Studios (“Predecessor”) by Medical Design Studios, Inc. (“MDS”) has been accounted for as a reverse acquisition for financial accounting purposes. The reverse merger is deemed a capital transaction and the net assets of Predecessor (the accounting acquirer) are carried forward to MDS (the legal acquirer and the reporting entity) at their carrying value before the combination. The acquisition process utilizes the capital structure of MDS and the assets and liabilities of Predecessor which are recorded at historical cost. Since MDS had no operations prior to the reverse merger, the financial statements of Predecessor and MDS are being combined for the period from January 1, 2004 through February 1, 2005. The equity of MDS is the historical equity of Predecessor retroactively restated to reflect the number of shares issued by MDS in the transaction.

On March 14, 2008, Justin N. Craig, the Company’s President and Chief Executive Officer, privately sold 6,528,572 shares of the Company’s common stock, constituting 91.4% of the Company’s outstanding shares and all of the shares owned beneficially by him, to Vision Opportunity Master Fund, Ltd. Certain other of the Company’s stockholders also sold shares of the Company’s common stock to Vision Opportunity Master Fund. As a result of these privately-negotiated sales, a change in control occurred from Mr. Craig to Vision Opportunity Master Fund.

On March 17, 2008, pursuant to prior approvals by stockholders owning in excess of a majority of the voting power of the Company’s outstanding shares, the Company effected a 2-for-1 reverse stock split of the Company’s outstanding shares of common stock.

After giving effect to the privately-negotiated transactions described above, Vision Opportunity Master Fund owns 6,742,858 shares of the Company’s common stock, or 94.4% of the Company’s outstanding shares. Vision Opportunity Master Fund purchased these shares for approximately \$670,000 in cash, inclusive of related acquisition costs. The source of the funding for the cash payment was the general working capital of Vision Opportunity Master Fund.

The terms of the purchase and sale transactions were as a result of arm's-length negotiations between the parties. None of the parties had any relationship with one another prior to this transaction.

The Company's officers and directors, and the business focus of our company, were not changed in connection with the purchase and sale transactions.

On November 21, 2008, the Company effectuated a 5 for 1 forward stock split.

On March 21, 2009, the Company effectuated a 1 for 3.5 reverse stock split.

All share and per share amounts in these financial statements have been adjusted to give retroactive effect to the reverse stock split.

## NOTE 2                      SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Basis of Presentation

The accompanying unaudited interim consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") for interim financial information and with the rules and regulations of the United States Securities and Exchange Commission ("SEC") to Form 10 and Article 8 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by U.S. GAAP for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. The results of operations realized during an interim period are not necessarily indicative of results to be expected for a full year. These financial statements should be read in conjunction with the financial statements of the Company for the year ended December 31, 2009 and notes thereto contained in the Company's Annual Report Form 10-K as filed with the SEC on March 31, 2010.

### Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States 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 as well as the reported amount of revenues and expenses during the reporting period. Actual results could differ from these estimates.

### Reclassifications

Certain amounts in the prior period financial statements have been reclassified to conform to the current period presentation. These reclassifications had no effect on reported losses.



### Cash Equivalents

The Company considers all highly liquid investments with maturities of three months or less at the time of purchase to be cash equivalents.

### Accounts Receivable and Allowance for Doubtful Accounts

Accounts receivable are recorded at cost. The Company considers the need for an allowance for doubtful accounts related to its accounts receivables that are deemed to have a high risk of collectability. Management reviews its accounts receivables on a monthly basis to determine if any receivables will potentially be uncollectible. Management analyzes historical collection trends and changes in its customer payment patterns, customer concentration, and credit worthiness when evaluating the adequacy of its allowance for doubtful accounts. The Company includes any receivables balances that are determined to be uncollectible, along with a general reserve, in its overall allowance for doubtful accounts.

### Equipment

Equipment, which consists of computers and video equipment, is stated at cost less accumulated depreciation. Depreciation is calculated on the straight-line basis over the estimated useful life of three (3) to five (5) years. Depreciation expense for the periods ended March 31, 2010 and 2009 was \$1,707 and \$2,596, respectively.

### Fair Value of Financial Instruments

The Company follows paragraph 825-10-50-10 of the FASB Accounting Standards Codification for disclosures about fair value of its financial instruments and has adopted paragraph 820-10-35-37 of the FASB Accounting Standards Codification ("Paragraph 820-10-35-37") to measure the fair value of its financial instruments. Paragraph 820-10-35-37 establishes a framework for measuring fair value in accounting principles generally accepted in the United States of America (U.S. GAAP), and expands disclosures about fair value measurements. To increase consistency and comparability in fair value measurements and related disclosures, Paragraph 820-10-35-37 establishes a fair value hierarchy which prioritizes the inputs to valuation techniques used to measure fair value into three (3) broad levels. The fair value hierarchy gives the highest priority to quoted prices (unadjusted) in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. The three (3) levels of fair value hierarchy defined by Paragraph 820-10-35-37 are described below:

|         |   |
|---------|---|
| Level 1 | Quoted market prices available in active markets for identical assets or liabilities as of the reporting date.  |
| Level 2 | Pricing inputs other than quoted prices in active markets included in Level 1, which are either directly or indirectly observable as of the reporting date. |
| Level 3 | Pricing inputs that are generally observable inputs and not corroborated by market data.  |

The carrying amounts of the Company's financial assets and liabilities, such as cash and accrued expenses, approximate their fair values because of the short maturity of these instruments.

The Company does not have any assets or liabilities measured at fair value on a recurring or a non-recurring basis, consequently, the Company did not have any fair value adjustments for assets and liabilities measured at fair value at March 31, 2010 or December 31, 2009, nor gains or losses are reported in the statement of operations that are attributable to the change in unrealized gains or losses relating to those assets and liabilities still held at the reporting date for the interim period ended March 31, 2010 or 2009.

#### Revenue Recognition

The Company applies paragraph 605-10-S99-1 of the FASB Accounting Standards Codification for revenue recognition. The Company recognizes revenue when it is realized or realizable and earned. The Company considers revenue realized or realizable and earned when all of the following criteria are met: (i) persuasive evidence of an arrangement exists, (ii) the product has been shipped or the services have been rendered to the customer, (iii) the sales price is fixed or determinable, and (iv) collectability is reasonably assured.

#### Income Taxes

The Company accounts for income taxes under Section 740-10-30 of the FASB Accounting Standards Codification. Deferred income tax assets and liabilities are determined based upon differences between the financial reporting and tax bases of assets and liabilities and are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse. Deferred tax assets are reduced by a valuation allowance to the extent management concludes it is more likely than not that the assets will not be realized. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in the statements of operations in the period that includes the enactment date.

The Company adopted section 740-10-25 of the FASB Accounting Standards Codification (“Section 740-10-25”). Section 740-10-25 addresses the determination of whether tax benefits claimed or expected to be claimed on a tax return should be recorded in the financial statements. Under Section 740-10-25, the Company may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such a position should be measured based on the largest benefit that has a greater than fifty percent (50%) likelihood of being realized upon ultimate settlement. Section 740-10-25 also provides guidance on de-recognition, classification, interest and penalties on income taxes, accounting in interim periods and requires increased disclosures. The Company had no material adjustments to its liabilities for unrecognized income tax benefits according to the provisions of Section 740-10-25.

#### Net income (loss) per common share

Net income per common share is computed pursuant to section 260-10-45 of the FASB Accounting Standards Codification. Basic net income (loss) per common share is computed by dividing net income (loss) by the weighted average number of shares of common stock outstanding during the period. Diluted net income (loss) per common share is computed by dividing net income (loss) by the weighted average number of shares of common stock and potentially outstanding shares of common stock during each period. There were no potentially dilutive shares outstanding as of March 31, 2010 or 2009.

Recently issued accounting standards

In June 2003, the Securities and Exchange Commission (“SEC”) adopted final rules under Section 404 of the Sarbanes-Oxley Act of 2002 (“Section 404”), as amended by SEC Release No. 33-9072 on October 13, 2009. Commencing with its annual report for the year ending December 31, 2010, the Company will be required to include a report of management on its internal control over financial reporting. The internal control report must include a statement

- of management’s responsibility for establishing and maintaining adequate internal control over its financial reporting;
- of management’s assessment of the effectiveness of its internal control over financial reporting as of year end; and
- of the framework used by management to evaluate the effectiveness of the Company’s internal control over financial reporting.

Furthermore, in the following fiscal year, it is required to file the auditor’s attestation report separately on the Company’s internal control over financial reporting on whether it believes that the Company has maintained, in all material respects, effective internal control over financial reporting.

In August 2009, the FASB issued the FASB Accounting Standards Update No. 2009-04 “Accounting for Redeemable Equity Instruments - Amendment to Section 480-10-S99” which represents an update to section 480-10-S99, distinguishing liabilities from equity, per EITF Topic D-98, Classification and Measurement of Redeemable Securities. The Company does not expect the adoption of this update to have a material impact on its consolidated financial position, results of operations or cash flows.

In August 2009, the FASB issued the FASB Accounting Standards Update No. 2009-05 “Fair Value Measurement and Disclosures Topic 820 – Measuring Liabilities at Fair Value”, which provides amendments to subtopic 820-10, Fair Value Measurements and Disclosures – Overall, for the fair value measurement of liabilities. This Update provides clarification that in circumstances in which a quoted price in an active market for the identical liability is not available, a reporting entity is required to measure fair value using one or more of the following techniques: 1. A valuation technique that uses: a. The quoted price of the identical liability when traded as an asset b. Quoted prices for similar liabilities or similar liabilities when traded as assets. 2. Another valuation technique that is consistent with the principles of topic 820; two examples would be an income approach, such as a present value technique, or a market approach, such as a technique that is based on the amount at the measurement date that the reporting entity would pay to transfer the identical liability or would receive to enter into the identical liability. The amendments in this Update also clarify that when estimating the fair value of a liability, a reporting entity is not required to include a separate input or adjustment to other inputs relating to the existence of a restriction that prevents the transfer of the liability. The amendments in this Update also clarify that both a quoted price in an active market for the identical liability when traded as an asset in an active market when no adjustments to the quoted price of the asset are required are Level 1 fair value measurements. The Company does not expect the adoption of this update to have a material impact on its consolidated financial position, results of operations or cash flows.

In September 2009, the FASB issued the FASB Accounting Standards Update No. 2009-09 “Accounting for Investments-Equity Method and Joint Ventures and Accounting for Equity-Based Payments to Non-Employees”. This Update represents a correction to Section 323-10-S99-4, Accounting by an Investor for Stock-Based Compensation Granted to Employees of an Equity Method Investee. Additionally, it adds observer comment Accounting Recognition for Certain Transactions Involving Equity Instruments Granted to Other Than Employees to the Codification. The Company does not expect the adoption to have a material impact on its consolidated financial position, results of operations or cash flows.

In January 2010, the FASB issued the FASB Accounting Standards Update No. 2010-01 “Equity Topic 505 – Accounting for Distributions to Shareholders with Components of Stock and Cash”, which clarifies that the stock portion of a distribution to shareholders that allows them to elect to receive cash or stock with a potential limitation on the total amount of cash that all shareholders can elect to receive in the aggregate is considered a share issuance that is reflected in EPS prospectively and is not a stock dividend for purposes of applying Topics 505 and 260 (Equity and Earnings Per Share (“EPS”)). Those distributions should be accounted for and included in EPS calculations in accordance with paragraphs 480-10-25- 14 and 260-10-45-45 through 45-47 of the FASB Accounting Standards codification. The amendments in this Update also provide a technical correction to the Accounting Standards Codification. The correction moves guidance that was previously included in the Overview and Background Section to the definition of a stock dividend in the Master Glossary. That guidance indicates that a stock dividend takes nothing from the property of the corporation and adds nothing to the interests of the stockholders. It also indicates that the proportional interest of each shareholder remains the same, and is a key factor to consider in determining whether a distribution is a stock dividend.

Management does not believe that any other recently issued, but not yet effective accounting pronouncements, if adopted, would have a material effect on the accompanying financial statements.

#### NOTE 3 GOING CONCERN

The accompanying financial statements have been prepared on a going concern basis which contemplates the realization of assets and satisfaction of liabilities in the normal course of business. At March 31, 2010, the Company has an accumulated deficit of \$95,000 and had a net loss of \$1,432 and cash used in operations of \$10,913 for the period ended March 31, 2010, respectively.

These factors raise substantial doubt about the Company’s ability to continue as a going concern and are dependent upon its ability to achieve profitable operations or obtain adequate financing. The financial statements do not include any adjustments related to the recoverability and classification of recorded asset amounts or the amounts and classification of liabilities that might be necessary should the Company be unable to continue in existence.

While the Company is attempting to expand operations and produce additional revenues, the Company's cash position may not be significant enough to support the Company's daily operations. There are no assurances that it will complete the engagements successfully or that these engagements will be extended or new engagements will be obtained.

NOTE 4 STOCKHOLDERS' DEFICIT

On March 21, 2009, the Company effectuated a 1 for 3.5 reverse stock split of its outstanding shares of common stock. All share and per share amounts in these financial statements have been adjusted to give retroactive effect to the reverse stock split.

During the three months ended March 31, 2010, the majority shareholder contributed \$11,000 to the Company for working capital.

NOTE 5 CONCENTRATION OF RISK

For the three months ended March 31, 2010, three unrelated customers The Dancel Group (13.80%), Legal Wizard (23.25%), and Trial Exhibits, Inc. (51.52%) comprised 88.57% of total revenues.

For the three months ended March 31, 2009, two unrelated customers Legal Wizard (67.31%) and Visual Advantage (10.24%), comprised 77.55% of total revenues.

NOTE 6 RELATED PARTY TRANSACTIONS

The Company's office space which serves as its principal address is provided to it by its President. The Company paid rent of \$1,200 in each of 2010 and 2009 for use of these facilities. There is no written lease agreement.

NOTE 7 SUBSEQUENT EVENTS

The Company has evaluated all events that occurred after the balance sheet date of March 31, 2010 through May 14, 2010, the date when the financial statements were issued. The Management of the Company determined that there were no reportable events that occurred during that subsequent period to be disclosed or recorded.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Safe Harbor Statement under the Private Securities Litigation Reform Act of 1995

Information set forth herein contains "forward-looking statements" which can be identified by the use of forward-looking terminology such as "believes," "expects," "may," "should" or "anticipates" or the negative thereof or other variations thereon or comparable terminology, or by discussions of strategy. We cannot assure you that the future results covered by the forward-looking statements will be achieved. We caution readers that important factors may affect our actual results and could cause such results to differ materially from forward-looking statements made by or on behalf of us. These factors include our lack of historically profitable operations, dependence on key personnel, the success of our business, our ability to manage anticipated growth and other factors identified in our filings with the U.S. Securities and Exchange Commission, press releases and/or other public communications.

The following discussion and analysis provides information which our management believes to be relevant to an assessment and understanding of our results of operations and financial condition. This discussion should be read together with our financial statements and the notes to financial statements, which are included in this report. Because of the nature of a relatively new and growing company such as ours, the reported results will not necessarily reflect the future.

#### Operations

We were founded as an unincorporated business in January 2004 and became a C corporation in the State of Nevada on February 1, 2005. As of March 31, 2010, we had one employee, Justin N. Craig, our founder and President. Mr. Craig devotes his full time to our business.

We are a digital medical illustrator and animator providing digital displays and enhancements to companies that assist attorneys to prepare or enhance exhibits for trials involving medical issues. Approximately 85% of our work is ultimately used by plaintiff counsel and 15% is used by defense counsel.

Our customers are almost always companies that assist attorneys to prepare or enhance a wide range of exhibits for trials. We perform the digital medical imaging that is needed by these companies. There are a limited number of these companies.

Customers typically hear of our services by word of mouth. They continue with us and expand or decrease the amount of work that they send to us based on the quality and timing of our output. We retain rights to the digital images that we produce. These digital images form a library for us. Some of these digital images can be sold to users who need generic types of images for their purposes. This enables us to generate revenue without doing additional work. The longer that we are in operation, the larger our library becomes.

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Comparison of the Three Months ended March 31, 2010 and 2009

A summary of operations follows:

|                                     | 2010       | 2009      |
|-------------------------------------|------------|-----------|
| Revenue                             | \$ 18,750  | \$ 13,750 |
| Operating Expenses:                 |            |           |
| Selling, general and administrative | 8,582      | 13,978    |
| Compensation                        | 11,600     | 9,364     |
| Total operating expenses            | 20,182     | 23,342    |
| Loss from operations                | (1,432)    | (9,592)   |
| Other income:                       |            |           |
| Recovery of bad debt                | -          | 10,000    |
|                                     | -          | 10,000    |
| Income (loss) before income taxes   | \$ (1,432) | \$ 408    |

Revenue – For the three months ended March 31, 2010, three unrelated customers The Dancel Group (13.80%), Legal Wizard (23.25%), and Trial Exhibits, Inc. (51.52%) comprised 88.57% of total revenues. For the three months ended March 31, 2009, two unrelated customers, Legal Wizard (67.31%) and The Visual Advantage (10.24%), comprised 77.55% of total revenues. This trend of relying on a very limited number of customers is likely to continue for the foreseeable future.

Compensation relates entirely to Justin N. Craig.

Selling, general and administrative consist of:

|                         | 2010     | 2009      |
|-------------------------|----------|-----------|
| Accounting              | \$ 1,500 | \$ -      |
| Automobile              | 392      | 454       |
| Computer supplies       | 126      | 216       |
| Depreciation            | 1,707    | 2,596     |
| Dues                    | 195      | 98        |
| Employee benefits       | 1,946    | 4,527     |
| Entertainment           | 216      | 264       |
| Insurance               | 325      | -         |
| Internet expenses       | 130      | 130       |
| Office expense          | -        | 1,000     |
| Outside services        | -        | 2,400     |
| Rent                    | 1,200    | 1,200     |
| Repairs and maintenance | -        | 246       |
| Salaries                | 600      | -         |
| Taxes                   | 46       | 46        |
| Telephone               | 482      | 389       |
| Travel                  | -        | 412       |
| Total                   | \$ 8,865 | \$ 13,978 |





## Other

As a corporate policy, we will not incur any cash obligations that we cannot satisfy with known resources, of which there are currently none except as described in "Liquidity" below. We believe that the perception that many people have of a public company make it more likely that they will accept restricted securities from a public company as consideration for indebtedness to them than they would from a private company. We have not performed any studies of this matter. Our conclusion is based on our own observations. However, there can be no assurances that we will be successful in any of those efforts even if we are a public entity. Additionally, issuance of restricted shares would necessarily dilute the percentage of ownership interest of our stockholders.

## Liquidity

On January 21, 2010 and March 4, 2010, our majority shareholder, Vision Opportunity Master Fund, Ltd., contributed \$11,000 to our capital to support our working capital needs.

Private capital, if sought, will be sought from former business associates of our founder or private investors referred to us by those business associates. To date, we have not sought any funding source and have not authorized any person or entity to seek out funding on our behalf. If a market for our shares ever develops, of which there can be no assurances, we may use restricted shares of our common stock to compensate employees/consultants and independent contractors wherever possible. We believe that operations are generating sufficient cash to continue operations for the next 12 months provided that our costs of being a public company remain equal to or below the maximum estimate provided below.

We have become a public company and, by doing so, have incurred and will continue to incur additional significant expenses for legal, accounting and related services. Since we became a public entity, subject to the reporting requirements of the Securities Exchange Act of 1934, we are incurring ongoing expenses associated with professional fees for accounting, legal and a host of other expenses for annual reports and proxy statements. These obligations will reduce our ability and resources to fund other aspects of our business. We will reduce the compensation levels paid to management if there is insufficient cash generated from operations to satisfy these costs.

There are no current plans to seek private investment. We do not have any current plans to raise funds through the sale of securities. We hope to be able to use our status as a public company to enable us to use non-cash means of settling obligations and compensate persons and/or firms providing services or products to us, although there can be no assurances that we will be successful in any of those efforts. We believe that the perception that many people have of a public company make it more likely that they will accept restricted securities from a public company as consideration for indebtedness to them than they would from a private company. We have not performed any studies of this matter. Our conclusion is based on our own beliefs. Issuing shares of our common stock to such persons instead of paying cash to them would increase our chances to expand our business. Having shares of our common stock may also give persons a greater feeling of identity with us which may result in referrals. However, these actions, if successful, will result in dilution of the ownership interests of existing shareholders, may further dilute common stock book value, and that dilution may be material. Such issuances may also serve to enhance existing management's ability to maintain control because the shares may be issued to parties or entities committed to supporting existing management.

#### Off-Balance Sheet Arrangements

We have no off-balance sheet arrangements, obligations under any guarantee contracts or contingent obligations. We also have no other commitments, other than the costs of being a public company that will increase our operating costs or cash requirements in the future.

#### Seasonality

We have not noted a significant seasonal impact in our business.

#### Recently-Issued Accounting Pronouncements

In June 2003, the U.S. Securities and Exchange Commission adopted final rules under Section 404 of the Sarbanes-Oxley Act of 2002, as amended by SEC Release No. 33-9072 on October 13, 2009. Commencing with our annual report for the year ended December 31, 2010, we will be required to include a report of management on our internal control over financial reporting. The internal control report must include a statement.

§of management's responsibility for establishing and maintaining adequate internal control over our financial reporting;

§of management's assessment of the effectiveness of our internal control over financial reporting as of year end; and

§of the framework used by management to evaluate the effectiveness of our internal control over financial reporting.

Furthermore, in the following fiscal year, management is required to file the registered accounting firm's attestation report separately on our internal control over financial reporting on whether it believes that we have maintained, in all material respects, effective internal control over financial reporting.

In August 2009, the FASB issued the FASB Accounting Standards Update No. 2009-04 “Accounting for Redeemable Equity Instruments - Amendment to Section 480-10-S99” which represents an update to section 480-10-S99, distinguishing liabilities from equity, per EITF Topic D-98, Classification and Measurement of Redeemable Securities. The Company does not expect the adoption of this update to have a material impact on its consolidated financial position, results of operations or cash flows.

In August 2009, the FASB issued the FASB Accounting Standards Update No. 2009-05 “Fair Value Measurement and Disclosures Topic 820 – Measuring Liabilities at Fair Value”, which provides amendments to subtopic 820-10, Fair Value Measurements and Disclosures – Overall, for the fair value measurement of liabilities. This Update provides clarification that in circumstances in which a quoted price in an active market for the identical liability is not available, a reporting entity is required to measure fair value using one or more of the following techniques: 1. A valuation technique that uses: a. The quoted price of the identical liability when traded as an asset b. Quoted prices for similar liabilities or similar liabilities when traded as assets. 2. Another valuation technique that is consistent with the principles of topic 820; two examples would be an income approach, such as a present value technique, or a market approach, such as a technique that is based on the amount at the measurement date that the reporting entity would pay to transfer the identical liability or would receive to enter into the identical liability. The amendments in this Update also clarify that when estimating the fair value of a liability, a reporting entity is not required to include a separate input or adjustment to other inputs relating to the existence of a restriction that prevents the transfer of the liability. The amendments in this Update also clarify that both a quoted price in an active market for the identical liability when traded as an asset in an active market when no adjustments to the quoted price of the asset are required are Level 1 fair value measurements. The Company does not expect the adoption of this update to have a material impact on its consolidated financial position, results of operations or cash flows.

In September 2009, the FASB issued the FASB Accounting Standards Update No. 2009-09 “Accounting for Investments-Equity Method and Joint Ventures and Accounting for Equity-Based Payments to Non-Employees”. This Update represents a correction to Section 323-10-S99-4, Accounting by an Investor for Stock-Based Compensation Granted to Employees of an Equity Method Investee. Additionally, it adds observer comment Accounting Recognition for Certain Transactions Involving Equity Instruments Granted to Other Than Employees to the Codification. The Company does not expect the adoption to have a material impact on its consolidated financial position, results of operations or cash flows.

In January 2010, the FASB issued the FASB Accounting Standards Update No. 2010-01 “Equity Topic 505 – Accounting for Distributions to Shareholders with Components of Stock and Cash”, which clarifies that the stock portion of a distribution to shareholders that allows them to elect to receive cash or stock with a potential limitation on the total amount of cash that all shareholders can elect to receive in the aggregate is considered a share issuance that is reflected in EPS prospectively and is not a stock dividend for purposes of applying Topics 505 and 260 (Equity and Earnings Per Share (“EPS”)). Those distributions should be accounted for and included in EPS calculations in accordance with paragraphs 480-10-25- 14 and 260-10-45-45 through 45-47 of the FASB Accounting Standards codification. The amendments in this Update also provide a technical correction to the Accounting Standards Codification. The correction moves guidance that was previously included in the Overview and Background Section to the definition of a stock dividend in the Master Glossary. That guidance indicates that a stock dividend takes nothing from the property of the corporation and adds nothing to the interests of the stockholders. It also indicates that the proportional interest of each shareholder remains the same, and is a key factor to consider in determining whether a distribution is a stock dividend.

Management does not believe that any other recently issued, but not yet effective accounting pronouncements, if adopted, would have a material effect on the accompanying consolidated financial statements.

#### Critical Accounting Policies

The preparation of financial statements and related notes requires us to make judgments, estimates, and assumptions that affect the reported amounts of assets, liabilities, revenue and expenses, and related disclosure of contingent assets and liabilities.

An accounting policy is considered to be critical if it requires an accounting estimate to be made based on assumptions about matters that are highly uncertain at the time the estimate is made, and if different estimates that reasonably could have been used, or changes in the accounting estimates that are reasonably likely to occur periodically, could materially impact the financial statements.

Financial Reporting Release No. 60 requires all companies to include a discussion of critical accounting policies or methods used in the preparation of financial statements. There are no critical policies or decisions that rely on judgments that are based on assumptions about matters that are highly uncertain at the time the estimate is made.

#### ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not required

#### ITEM 4. CONTROLS AND PROCEDURES

##### (a) Evaluation of Disclosure Controls and Procedures.

An evaluation was carried out under the supervision and with the participation of the our management, including our Chief Executive Officer (“CEO”) and Chief Financial Officer (“CFO”) (in this case the same person), of the effectiveness of our disclosure controls and procedures as of March 31, 2010. Based on that evaluation, our CEO/CFO has concluded that our disclosure controls and procedures are ineffective to provide reasonable assurance that: (i) information required to be disclosed by us in reports that we file or submit under the Securities Exchange Act of 1934 is accumulated and communicated to our management, including our CEO/CFO, as appropriate to allow timely decisions regarding required disclosure by us; and (ii) information required to be disclosed by us in reports that we file or submit under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms.

##### (b) Changes in Internal Controls.

During the quarter ended March 31, 2010, there were no changes in our internal control over financial reporting 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

None

ITEM 1A. RISK FACTORS

Not required

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

None

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None

ITEM 4. RESERVED

ITEM 5. OTHER INFORMATION

None

ITEM 6. EXHIBITS

Exhibit  
Number

Description

31.1 Section 302 Certification of Chief Executive Officer and Chief Financial Officer.

32.1 Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 – Chief Executive Officer and Chief Financial Officer.

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.

Date: May 14, 2010

Medical Design Studios, Inc.

By: /s/ Justin N. Craig  
Justin N. Craig  
President and Chief Financial Officer  
(principal executive officer and  
principal  
financial and accounting officer)