

Medical Design Studios, Inc.
Form 10-Q
May 15, 2008

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2008

**TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT**

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 Street, Aurora, Colorado 80016
(Address of Principal Executive Offices)

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

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

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

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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 April 29, 2008, 5,000,000 shares of the issuer’s Common Stock were outstanding.

MEDICAL DESIGN STUDIOS, INC.

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MEDICAL DESIGN STUDIOS, INC.

Balance Sheets

March 31, 2008

December 31, 2007

(Unaudited)

ASSETS

Current Assets:

| | | | | |
|----------------------|----|--------|----|--------|
| Cash | \$ | 500 | \$ | 500 |
| Accounts receivable | | 20,250 | | 37,825 |
| Total current assets | | 20,750 | | 38,325 |

Equipment:

| | | | | |
|--------------------------|--|---------|--|---------|
| Computer equipment | | 29,793 | | 18,075 |
| Accumulated depreciation | | (8,137) | | (6,319) |
| Net | | 21,656 | | 11,756 |

| | | | | |
|--------------|----|--------|----|--------|
| TOTAL ASSETS | \$ | 42,406 | \$ | 50,081 |
|--------------|----|--------|----|--------|

LIABILITIES AND STOCKHOLDERS' EQUITY

Liabilities

| | | | | |
|------------------|----|--------|----|--------|
| Accrued expenses | \$ | 24,496 | \$ | 25,086 |
|------------------|----|--------|----|--------|

Stockholders' Equity:

| | | | | |
|--------------------------------------------------------------------------------------------------------|----|--------|----|--------|
| Preferred stock: \$0.001 par value; 1,000,000 shares authorized; no shares issued or outstanding | | - | | - |
| Common stock: \$0.001 par value; 74,000,000 shares authorized; 5,000,000 shares issued and outstanding | | 5,000 | | 5,000 |
| Additional paid-in capital | | 5,000 | | 5,000 |
| Retained earnings | | 7,910 | | 14,995 |
| Total stockholders' equity | | 17,910 | | 24,995 |
| TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY | \$ | 42,406 | \$ | 50,081 |

See accompanying notes to financial statements.

MEDICAL DESIGN STUDIOS, INC.

Statements of Operations
For the Three Months Ended March 31, 2008 and 2007
(Unaudited)

| | 2008 | 2007 |
|-------------------------------------------------------------------------|------------|-----------|
| Revenue | \$ 45,215 | \$ 54,475 |
| Operating Expenses: | | |
| General and administrative | 13,852 | 12,857 |
| Compensation | 38,448 | 36,294 |
| Total | 52,300 | 49,151 |
| Income (loss) before income taxes | (7,085) | 5,324 |
| Provision for income taxes | - | 798 |
| Net income (loss) | \$ (7,085) | \$ 4,526 |
| Net income (loss) per common share - basic and diluted | \$ (0.00) | \$ 0.00 |
| Weighted average number of common shares outstanding- basic and diluted | 5,000,000 | 4,620,000 |

See accompanying notes to financial statements.

MEDICAL DESIGN STUDIOS, INC.

Statements of Cash Flows
For the Three Months Ended March 31, 2008 and 2007
(Unaudited)

| | 2008 | 2007 |
|------------------------------------------------------------------------------------------|---------------|---------------|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net income (loss) | \$ (7,085) | \$ 4,526 |
| Depreciation | 1,818 | 841 |
| Adjustments to reconcile net income (loss) to net cash provided by operating activities: | | |
| Change in net operating assets | 16,985 | (5,367) |
| Net Cash Provided by Operating Activities | 11,718 | - |
| CASH FLOWS FROM FINANCING ACTIVITIES - Purchase of computer | | |
| | (11,718) | - |
| NET CHANGE IN CASH | - | - |
| CASH AT BEGINNING OF PERIOD | 500 | 500 |
| CASH AT END OF PERIOD | \$ 500 | \$ 500 |

See accompanying notes to financial statements.

MEDICAL DESIGN STUDIOS, INC.

Notes to Unaudited Financial Statements

March 31, 2008

(Unaudited)

NOTE 1 BASIS OF PRESENTATION

The accompanying interim financial statements for the three-month periods ended March 31, 2008 and 2007 are unaudited and include all adjustments (consisting of normal recurring adjustments) considered necessary by management for a fair presentation. 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 information filed as part of the Company's Annual Report on Form 10-KSB for the year ended December 31, 2007.

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.

NOTE 2 CURRENT DEVELOPMENTS

On March 14, 2008, Justin N. Craig, the Company's President and Chief Executive Officer, privately sold 9,140,000 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.

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

Following the reverse stock split, the Company has 5,000,000 shares of common stock outstanding. Of such shares, after giving effect to the privately-negotiated transactions described above, Vision Opportunity Master Fund owns 4,720,000 shares of the Company's common stock, or 94.4% of the Company's outstanding shares. Vision Opportunity Master Fund purchased these shares for a total of 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 the Company were not changed in connection with the purchase and sale transactions.

NOTE 3 CONCENTRATION OF RISK

For the three months ended March 31, 2008, two unrelated customers (High Impact Litigation (19.35%) and Trial Exhibits, Inc. (72.32%)) comprised 91.67% of total revenues.

For the three months ended March 31, 2007, three unrelated customers (High Impact Litigation (52.2%), The Visual Advantage (27.5%), and Trial Exhibits, Inc. (14.7%)) comprised 94.4% of total revenues.

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, ability to manage anticipated growth and other factors identified in our filings with the Securities and Exchange Commission, press releases and/or other public communications.

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. At March 31, 2008, we had one employee, Justin Craig, our founder and president. Mr. Craig devotes his full time to us.

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 originally hear of our services from word of mouth. Generally, 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. We can sell some of these digital images 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.

Comparison of the three months ended March 31, 2008 and 2007

A summary of operations follows:

| | Three Months Ended March 31, | |
|-----------------------------------|------------------------------|-----------|
| | 2008 | 2007 |
| Revenue | \$ 45,215 | \$ 54,475 |
| Operating Expenses: | | |
| General and administrative | 13,852 | 12,857 |
| Compensation | 38,448 | 36,294 |
| Total | 52,300 | 49,151 |
| Income (loss) before income taxes | \$ (7,085) | \$ 5,324 |

Revenue - For the three months ended March 31, 2008, two unrelated customers (High Impact Litigation (19.35%) and Trial Exhibits, Inc. (72.32%)) comprised 91.67% of total revenues.

For the three months ended March 31, 2007, three unrelated customers (High Impact Litigation (52.2%), The Visual Advantage (27.5%), and Trial Exhibits, Inc. (14.7%)) comprised 94.4% of total revenues.

Compensation relates entirely to Justin Craig.

General and administrative consist of:

| | Three Months Ended March 31, | |
|-------------------------|------------------------------|-----------|
| | 2008 | 2007 |
| Automobile | \$ 421 | \$ 454 |
| Computer supplies | 613 | 714 |
| Depreciation | 1,818 | 841 |
| Dues | 96 | 230 |
| Employee benefits | 4,616 | 3,916 |
| Entertainment | 296 | 142 |
| Internet expenses | 130 | 426 |
| Office expense | 1,000 | 482 |
| Outside services | 2,625 | 2,629 |
| Rent | 1,200 | 1,200 |
| Repairs and maintenance | - | 312 |
| Salaries | 600 | 800 |
| Telephone | 392 | 351 |
| Taxes | 45 | - |
| Travel | - | 360 |
| Total | \$ 13,852 | \$ 12,857 |

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, we cannot assure you 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

We do not know and cannot estimate whether the transaction among certain of our shareholders and Vision Opportunity Master Fund described above will have any impact on our liquidity or ability to obtain funds.

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 we cannot assure you, 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. As a public entity, subject to the reporting requirements of the Securities Exchange Act of 1934, we incur ongoing expenses associated with professional fees for accounting, legal and a host of other expenses for annual and periodic reports and proxy statements. We estimate that these costs will range up to \$50,000 per year for the next few years and will be higher if our business volume and activity increases but lower during the first year of being public because our overall business volume will be lower, and we will not yet be subject to the requirements of Section 404 of the Sarbanes-Oxley Act of 2002. These obligations will reduce our ability and resources to fund other aspects of our business. We hope to be able to use our status as a public company to increase our ability to use noncash means of settling obligations and compensate independent contractors who provide professional services to us, although we cannot assure you that we will be successful in any of those efforts. We will reduce the compensation levels paid to management if there is insufficient cash generated from operations to satisfy these costs.

We have no current plans to seek private investment or 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 we cannot assure you 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 held by such persons may also give them 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 our management’s ability to maintain control of our company because the shares may be issued to parties or entities committed to supporting our management.

Off Balance Sheet Arrangements

We have no off balance sheet arrangements as defined in Item 303(a)(4)(ii) of Regulation S-K, 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.

Recently Issued Accounting Pronouncements

In June 2003, the United States Securities and Exchange Commission adopted final rules under Section 404 of the Sarbanes-Oxley Act of 2002, as amended by SEC Release No. 33-8889 on February 1, 2008. Commencing with our annual report for the year ending December 31, 2008, we will be required to include a report of our 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, we are required to file our 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 September 2006, the Financial Accounting Standards Board (the "FASB") issued Statement of Financial Accounting Standards No. 157, *Fair Value Measurements* ("SFAS No. 157"). SFAS No. 157 defines fair value as used in numerous accounting pronouncements, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosure related to the use of fair value measures in financial statements. SFAS No. 157 is to be effective for our financial statements issued in 2008; however, earlier application is encouraged. We are currently evaluating the timing of adoption and the impact that adoption might have on our financial position or results of operations.

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of FASB Statements No 87, 88, 106 and 132(R)* ("SFAS No. 158"). SFAS No. 158 requires the recognition of the overfunded or underfunded status of a defined benefit postretirement plan as an asset or liability in the statement of financial position and the recognition of changes in that funded status in the year in which the changes occur through comprehensive income. SFAS No. 158 also requires the measurement of the funded status of a plan as of the date of the year-end statement of financial position. We do not anticipate that the adoption of this statement will have any effect on our financial condition and results of operations since we do not have any defined benefit or other postretirement plans.

On February 15, 2007, the FASB issued Statement of Financial Accounting Standards No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities: Including an amendment of FASB Statement No. 115* ("SFAS No. 159"). SFAS No. 159 permits all entities to elect to measure many financial instruments and certain other items at fair value with changes in fair value reported in earnings. SFAS No. 159 is effective as of the beginning of the first fiscal year that begins after November 15, 2007, with earlier adoption permitted. We do not anticipate that the adoption of this statement will have a material effect on our financial condition and results of operations.

The FASB, the Emerging Issues Task Force and the United States Securities and Exchange Commission have issued certain other accounting pronouncements and regulations as of March 31, 2008 that will become effective in subsequent periods; however, our management does not believe that any of those pronouncements would have significantly affected our financial accounting measurements or disclosures had they been in effect during the three months period ended March 31, 2008 and 2007, and we do not believe that any of those pronouncements will have a significant impact on our financial statements at the time they become effective.

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.

Seasonality

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

ITEM 3

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not required.

ITEM 4T

CONTROLS AND PROCEDURES

We maintain disclosure controls and procedures (as defined in Exchange Act Rule 13a-15(e)) that are designed to assure that information required to be disclosed in our Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms, and that such information is accumulated and communicated to management, including our Chief Executive Officer and Chief Financial Officer (one person, our President), as appropriate, to allow timely decisions regarding required disclosures.

As required by Exchange Act Rule 13a-15(b), as of the end of the period covered by this report, under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer, we evaluated the effectiveness of our disclosure controls and procedures. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of that date.

There was no change in our internal control over financial reporting during our most recently completed fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II

OTHER INFORMATION

Item Legal Proceedings

1

None

Item Risk Factors

1A

There are no material changes in the risk factors previously disclosed in our annual report on Form 10-KSB for the year ended December 31, 2007.

Item Unregistered Sale of Equity Securities and Use of Proceeds

2

None

Item Defaults Upon Senior Securities

3

None

Item Submission of Matters to a Vote of Shareholders

4

None

Item Other Information

5

None

Item Exhibits

6

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

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

MEDICAL DESIGN STUDIOS, INC.

By: /s/ Justin Craig

Justin Craig
President and Chief Financial Officer
(principal executive officer,
principal financial and accounting officer)

Dated: May 14, 2008