

Medical Design Studios, Inc.
Form 10-Q
August 16, 2010

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 June 30, 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	26-0482524
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)

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

(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) 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.

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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 ☐ (not required)

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 August 13, 2010, 7,142,858 shares of the issuer’s common stock were outstanding.

MEDICAL DESIGN STUDIOS, INC.

FORM 10-Q

June 30, 2010

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PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

MEDICAL DESIGN STUDIOS, INC.
Balance Sheets

	ASSETS	
	June 30, 2010 (Unaudited)	December 31, 2009
Current Assets:		
Cash	\$ 2,075	\$ -
Assets of discontinued operations	22,245	9,125
Total current assets	24,320	9,125
Assets of discontinued operations – equipment, net	5,909	9,323
TOTAL ASSETS	\$ 30,229	\$ 18,448
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Accrued expenses	\$ 1,938	\$ 17,561
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; 7,142,946 shares issued and outstanding	7,143	7,143
Additional paid-in capital	114,812	87,312
Accumulated deficit	(93,664)	(93,568)
Total stockholders' equity	28,291	887
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 30,229	\$ 18,448

See accompanying notes to financial statements.

MEDICAL DESIGN STUDIOS, INC.

Statements of Operations

(Unaudited)

	Three Months Ended June 30,	
	2010	2009
Revenue	\$ -	\$ -
Operating Expenses:		
Selling, general and administrative	839	-
Professional fees	3,718	-
Total operating expenses	4,557	-
Loss from continuing operations before income taxes	(4,557)	-
Provision for income taxes	-	-
Loss from continuing operations	(4,557)	-
Discontinued operations		
Income from discontinued operations	5,893	10,355
Income from discontinued operations	5,893	10,355
Net income	\$ 1,336	\$ 10,355
Net income (loss) per share - basic and diluted		
Continuing operations	\$ (0.00)	\$ 0.00
Discontinued operations	0.00	0.00
	\$ 0.00	\$ 0.00
Weighted average number of common shares outstanding – basic and diluted	7,142,946	7,142,946

See accompanying notes to the financial statements.

MEDICAL DESIGN STUDIOS, INC.

Statements of Operations

(Unaudited)

	Six Months Ended June 30,	
	2010	2009
Revenue	\$ -	\$ -
Operating Expenses:		
Selling, general and administrative	839	-
Professional fees	5,218	-
Total operating expenses	6,057	-
Loss from continuing operations before income taxes	(6,057)	-
Provision for income taxes	-	-
Loss from continuing operations	(6,057)	-
Discontinued operations		
Income from discontinued operations	5,961	10,763
Income from discontinued operations	5,961	10,763
Net income (loss)	\$ (96)	\$ 10,763
Net income (loss) per share – basic and diluted		
Continuing operations	\$ (0.00)	\$ 0.00
Discontinued operations	0.00	0.00
	\$ (0.00)	\$ 0.00
Weighted average number of common 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)

	Six Months Ended June 30,	
	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	\$ (96)	\$ 10,763
Depreciation	3,414	3,541
Recovery of bad debt	-	(10,000)
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Increase in accounts receivable	(13,120)	(6,650)
Increase (decrease) in accrued expenses	(15,623)	2,346
Net Cash Used in Operating Activities	(25,425)	-
CASH FLOWS FROM INVESTING ACTIVITIES		
Cash included in assets of discontinued operations	(100)	(39,766)
Net Cash Used in Investing Activities	(100)	(39,766)
CASH FLOWS FROM FINANCING ACTIVITIES		
Contribution to capital	27,500	35,000
Net Cash Provided by Financing Activities	27,500	35,000
CHANGE IN CASH	1,975	(4,766)
CASH AT BEGINNING OF PERIOD	100	4,766
CASH AT END OF PERIOD	\$ 2,075	\$ -

See accompanying notes to the financial statements.

MEDICAL DESIGN STUDIOS, INC.

June 30, 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 the company, were not changed in connection with the purchase and sale transactions.

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 June 30, 2010 and 2009 was \$3,414 and \$3,541, respectively.

Impairment of long-lived assets

The Company has adopted paragraph 360-10-35-17 of the FASB Accounting Standards Codification for its long-lived assets. The Company's long-lived assets, which include equipment, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable.

The Company assesses the recoverability of its long-lived assets by comparing the projected undiscounted net cash flows associated with the related long-lived asset or group of long-lived assets over their remaining estimated useful lives against their respective carrying amounts. Impairment, if any, is based on the excess of the carrying amount over the fair value of those assets. Fair value is generally determined using the asset's expected future discounted cash flows or market value, if readily determinable. If long-lived assets are determined to be recoverable, but the newly determined remaining estimated useful lives are shorter than originally estimated, the net book values of the long-lived assets are depreciated over the newly determined remaining estimated useful lives.

The Company determined that there were no impairments of long-lived assets as of June 30, 2010 or 2009.

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 | Quoted market prices available in active markets for identical assets or liabilities |
| 1 | as of the reporting date. |
| Level | Pricing inputs other than quoted prices in active markets included in Level 1, |
| 2 | which are either directly or indirectly observable as of the reporting date. |
| Level | Pricing inputs that are generally observable inputs and not corroborated by market |
| 3 | 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 June 30, 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 June 30, 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 June 30, 2010 or 2009.

Commitments and contingencies

The Company follows subtopic 450-20 of the FASB Accounting Standards Codification to report accounting for contingencies. Liabilities for loss contingencies arising from claims, assessments, litigation, fines and penalties and other sources are recorded when it is probable that a liability has been incurred and the amount of the assessment can be reasonably estimated.

Cash flows reporting

The Company adopted paragraph 230-10-45-24 of the FASB Accounting Standards Codification for cash flows reporting, classifies cash receipts and payments according to whether they stem from operating, investing, or financing activities and provides definitions of each category, and uses the indirect or reconciliation method (“Indirect method”) as defined by paragraph 230-10-45-25 of the FASB Accounting Standards Codification to report net cash flow from operating activities by adjusting net income to reconcile it to net cash flow from operating activities by removing the effects of (a) all deferrals of past operating cash receipts and payments and all accruals of expected future operating cash receipts and payments and (b) all items that are included in net income that do not affect operating cash receipts and payments.

Subsequent events

The Company follows the guidance in Section 855-10-50 of the FASB Accounting Standards Codification for the disclosure of subsequent events. The Company will evaluate subsequent events through the date when the financial statements were issued. Pursuant to ASU 2010-09 of the FASB Accounting Standards Codification, the Company as an SEC filer considers its financial statements issued when they are widely distributed to users, such as through filing them on EDGAR.

Recently issued accounting standards

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.

In January 2010, the FASB issued the FASB Accounting Standards Update No. 2010-02 “Consolidation Topic 810 – Accounting and Reporting for Decreases in Ownership of a Subsidiary – a Scope Clarification”, which provides amendments to Subtopic 810-10 and related guidance within U.S. GAAP to clarify that the scope of the decrease in ownership provisions of the Subtopic and related guidance applies to the following:

1. A subsidiary or group of assets that is a business or nonprofit activity
2. A subsidiary that is a business or nonprofit activity that is transferred to an equity method investee or joint venture
3. An exchange of a group of assets that constitutes a business or nonprofit activity for a noncontrolling interest in an entity (including an equity method investee or joint venture).

The amendments in this Update also clarify that the decrease in ownership guidance in Subtopic 810-10 does not apply to the following transactions even if they involve businesses:

1. Sales of in substance real estate. Entities should apply the sale of real estate guidance in Subtopics 360-20 (Property, Plant, and Equipment) and 976-605 (Retail/Land) to such transactions.
2. Conveyances of oil and gas mineral rights. Entities should apply the mineral property conveyance and related transactions guidance in Subtopic 932-360 (Oil and Gas-Property, Plant, and Equipment) to such transactions.

If a decrease in ownership occurs in a subsidiary that is not a business or nonprofit activity, an entity first needs to consider whether the substance of the transaction causing the decrease in ownership is addressed in other U.S. GAAP, such as transfers of financial assets, revenue recognition, exchanges of nonmonetary assets, sales of in substance real estate, or conveyances of oil and gas mineral rights, and apply that guidance as applicable. If no other guidance exists, an entity should apply the guidance in Subtopic 810-10.

In January 2010, the FASB issued the FASB Accounting Standards Update No. 2010-06 “Fair Value Measurements and Disclosures (Topic 820) Improving Disclosures about Fair Value Measurements”, which provides amendments to Subtopic 820-10 that require new disclosures as follows:

1. Transfers in and out of Levels 1 and 2. A reporting entity should disclose separately the amounts of significant transfers in and out of Level 1 and Level 2 fair value measurements and describe the reasons for the transfers.
2. Activity in Level 3 fair value measurements. In the reconciliation for fair value measurements using significant unobservable inputs (Level 3), a reporting entity should present separately information about purchases, sales, issuances, and settlements (that is, on a gross basis rather than as one net number).

This Update provides amendments to Subtopic 820-10 that clarify existing disclosures as follows:

1. Level of disaggregation. A reporting entity should provide fair value measurement disclosures for each class of assets and liabilities. A class is often a subset of assets or liabilities within a line item in the statement of financial position. A reporting entity needs to use judgment in determining the appropriate classes of assets and liabilities.
2. Disclosures about inputs and valuation techniques. A reporting entity should provide disclosures about the valuation techniques and inputs used to measure fair value for both recurring and nonrecurring fair value measurements. Those disclosures are required for fair value measurements that fall in either Level 2 or Level 3.

This Update also includes conforming amendments to the guidance on employers' disclosures about postretirement benefit plan assets (Subtopic 715-20). The conforming amendments to Subtopic 715-20 change the terminology from major categories of assets to classes of assets and provide a cross reference to the guidance in Subtopic 820-10 on how to determine appropriate classes to present fair value disclosures. The new disclosures and clarifications of existing disclosures are effective for interim and annual reporting periods beginning after December 15, 2009, except for the disclosures about purchases, sales, issuances, and settlements in the roll forward of activity in Level 3 fair value measurements. Those disclosures are effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years.

In February 2010, the FASB issued the FASB Accounting Standards Update No. 2010-09 "Subsequent Events (Topic 855) Amendments to Certain Recognition and Disclosure Requirements", which provides amendments to Subtopic 855-10 as follows:

1. An entity that either (a) is an SEC filer or (b) is a conduit bond obligor for conduit debt securities that are traded in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local or regional markets) is required to evaluate subsequent events through the date that the financial statements are issued. If an entity meets neither of those criteria, then it should evaluate subsequent events through the date the financial statements are available to be issued.
2. An entity that is an SEC filer is not required to disclose the date through which subsequent events have been evaluated. This change alleviates potential conflicts between Subtopic 855-10 and the SEC's requirements.
3. The scope of the reissuance disclosure requirements is refined to include revised financial statements only. The term revised financial statements is added to the glossary of Topic 855. Revised financial statements include financial statements revised either as a result of correction of an error or retrospective application of U.S. generally accepted accounting principles.

All of the amendments in this Update are effective upon issuance of the final Update, except for the use of the issued date for conduit debt obligors. That amendment is effective for interim or annual periods ending after June 15, 2010.

In April 2010, the FASB issued the FASB Accounting Standards Update No. 2010-17 "Revenue Recognition — Milestone Method (Topic 605) Milestone Method of Revenue Recognition", which provides guidance on the criteria that should be met for determining whether the milestone method of revenue recognition is appropriate. A vendor can recognize consideration that is contingent upon achievement of a milestone in its entirety as revenue in the period in which the milestone is achieved only if the milestone meets all criteria to be considered substantive.

Determining whether a milestone is substantive is a matter of judgment made at the inception of the arrangement. The following criteria must be met for a milestone to be considered substantive. The consideration earned by achieving the milestone should:

1. Be commensurate with either of the following:
 - a. The vendor's performance to achieve the milestone
 - b. The enhancement of the value of the item delivered as a result of a specific outcome resulting from the vendor's performance to achieve the milestone
2. Relate solely to past performance
3. Be reasonable relative to all deliverables and payment terms in the arrangement.

A milestone should be considered substantive in its entirety. An individual milestone may not be bifurcated. An arrangement may include more than one milestone, and each milestone should be evaluated separately to determine whether the milestone is substantive. Accordingly, an arrangement may contain both substantive and nonsubstantive milestones.

A vendor's decision to use the milestone method of revenue recognition for transactions within the scope of the amendments in this Update is a policy election. Other proportional revenue recognition methods also may be applied as long as the application of those other methods does not result in the recognition of consideration in its entirety in the period the milestone is achieved.

A vendor that is affected by the amendments in this Update is required to provide all of the following disclosures:

1. A description of the overall arrangement
2. A description of each milestone and related contingent consideration
3. A determination of whether each milestone is considered substantive
4. The factors that the entity considered in determining whether the milestone or milestones are substantive
5. The amount of consideration recognized during the period for the milestone or milestones.

The amendments in this Update are effective on a prospective basis for milestones achieved in fiscal years, and interim periods within those years, beginning on or after June 15, 2010. Early adoption is permitted. If a vendor elects early adoption and the period of adoption is not the beginning of the entity's fiscal year, the entity should apply the amendments retrospectively from the beginning of the year of adoption. Additionally, a vendor electing early adoption should disclose the following information at a minimum for all previously reported interim periods in the fiscal year of adoption:

1.	Revenue
2.	Income before income taxes
3.	Net income
4.	Earnings per share
5.	The effect of the change for the captions presented.

A vendor may elect, but is not required, to adopt the amendments in this Update retrospectively for all prior periods.

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 June 30, 2010, the Company has an accumulated deficit of \$93,664 and had a net loss of \$96 and cash used in operations of \$25,425 for the period ended June 30, 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

During the three months ended June 30, 2010, the majority shareholder contributed \$16,500 to the Company for working capital. During the six months ended June 30, 2010, the majority shareholder contributed \$27,500 to the Company for working capital.

NOTE 5 CONCENTRATION OF RISK

For the three months ended June 30, 2010, three unrelated customers Visual Advantage (37.70%), Legal Wizard (19.30%), and Trial Exhibits, Inc. (37.45%) comprised 94.45% of total revenues.

For the three months ended June 30, 2009, three unrelated customers Legal Wizard (25.88%), Trial Exhibits, Inc. (30.20%) and The Dancel Group (27.88%), comprised 83.96% 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 \$2,400 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 through the date when the financial statements were issued. The management of the Company determined that there are reportable subsequent events to be disclosed as follows:

On July 5, 2010, Medical Design Studios, Inc. (the "Company") transferred to a newly-formed company controlled by Justin N. Craig, the Company's President, Chief Executive Officer, Chief Financial Officer and Chairman (the "Buyer"), certain operating assets associated with the continuing operations of the Company's digital medical illustration and animation business, subject to related liabilities (the "Business"). Pursuant to the terms of an Agreement of Transfer with the Buyer (the "Transfer Agreement"), the Company transferred the Business to the Buyer for a cash purchase price of \$100.00 and other good and valuable consideration including the assumption by the Buyer of all liabilities and debts of the Company which relate to or arise out of the operations of the Business and the indemnification by the Buyer of all losses, liabilities, claims, damages, costs and expenses that may be suffered by the Company at any time which arise out of the operations of the Business. The transfer of the Business pursuant to the Transfer Agreement was approved by the board of directors of the Company and the holder of 94.4% of the Company's outstanding shares of common stock. The purchase price for the transfer was determined as a result of arm's-length negotiation between the parties.

The financial statements for the quarter ended June 30, 2010 give effect to the discontinuance of the operating entity.

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 June 30, 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.

Recent Developments

On July 5, 2010, we transferred to a newly-formed company, which we refer to herein as the “Buyer,” controlled by Justin N. Craig, our President, Chief Executive Officer, Chief Financial Officer and Chairman, certain operating assets associated with the continuing operations of our digital medical illustration and animation business, subject to related liabilities, which we refer to herein as the “Business.” Pursuant to the terms of an Agreement of Transfer with the Buyer, we transferred the Business to the Buyer for a cash purchase price of \$100.00 and other good and valuable consideration including the assumption by the Buyer of all of our liabilities and debts which relate to or arise out of the operations of the Business and the indemnification by the Buyer of all losses, liabilities, claims, damages, costs and expenses that may be suffered by us at any time which arise out of the operations of the Business. The transfer of the Business was approved by our board of directors and the holder of 94.4% of our outstanding shares of common stock. The purchase price for the transfer of the Business was determined as a result of arm’s-length negotiation between the parties.

Comparison of the Six Months ended June 30, 2010 and 2009

A summary of operations follows:

	2010	2009
Revenue	\$ -	\$ -
Operating Expenses:		
Selling, general and administrative	839	-
Compensation	5,218	-
Total operating expenses	6,057	-
Income (loss) from operations	(6,057)	-
Discontinued operations		
Income from discontinued operations	5,961	10,763
Income from discontinued operations	5,961	10,763
Income (loss) before income taxes	\$ (96)	\$ 10,763

Revenue – For the three months ended June 30, 2010, three unrelated customers Visual Advantage (37.70%), Legal Wizard (19.30%), and Trial Exhibits, Inc. (37.45%) comprised 94.45% of total revenues. For the three months ended June 30, 2009, three unrelated customers Legal Wizard (25.88%), Trial Exhibits, Inc. (30.20%) and The Dancel Group (27.88%), comprised 83.96% 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.

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.

As part of our plan to augment our financial resources and consider attractive business opportunities, our principal stockholders have entered into discussions with unnamed, unaffiliated third parties with respect to a potential merger transaction which could result in the discontinuance of our current operations, change of control/ownership and new management. There can be no assurance that a merger or other significant transaction will be consummated with any such third parties or, if consummated, that we or our stockholders would realize any benefits from it.

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 June 30, 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 June 30, 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.

Medical Design Studios, Inc.

Date: August 16, 2010

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