Design Source, Inc.
Form 10-Q
February 03, 2010

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

FORM 10 – Q

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

For the quarterly period ended December 31, 2009

or

¨ 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 000-52089

Design Source, Inc.
(Exact name of small business issuer as specified in its charter)

| | |
|---|---|
| Nevada | 36-4528166 |
| (State or other jurisdiction of incorporation or organization) | (IRS Employer Identification Number) |

100 Europa Drive, Suite 455, Chapel Hill, North Carolina 27517
(Address of principal executive offices)

(919) 933-2720
(Registrant's telephone number, including area code)

Indicate by check mark whether the issuer (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, and (2) has been subject to such filing requirements for the past 90 days. Yes x 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 x

(Do not check if a 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 x No ¨

As of February 1, 2010 there were 11,218,457 shares of the issuer's common stock, par value $0.00001, issued and outstanding.

DESIGN SOURCE, INC.

FORM 10-Q
FOR THE QUARTERLY PERIOD ENDED DECEMBER 31, 2009
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## PART I – FINANCIAL INFORMATION

### ITEM 1. FINANCIAL STATEMENTS

DESIGN SOURCE, INC.
(A Development Stage Company)
BALANCE SHEETS

| | December 31, 2009 (Unaudited) | March 31, 2009 (Audited) |
|---|---|---|
| ASSETS | | |
| | | |
| CURRENT ASSETS | | |
| Cash | $ - | $ 12 |
| | | |
| TOTAL ASSETS | $ - | $ 12 |
| | | |
| LIABILITIES AND STOCKHOLDERS' DEFICIT | | |
| | | |
| CURRENT LIABILITIES | | |
| Accounts payable | $ 16,413 | $ 47,147 |
| TOTAL CURRENT LIABILITIES | 16,413 | 47,147 |
| | | |
| Convertible debt (including accrued interest) | 84,285 | - |
| | | |
| TOTAL LIABILITIES | 100,698 | 47,147 |
| | | |
| COMMITMENTS AND CONTINGENCIES | - | - |
| | | |
| STOCKHOLDERS' DEFICIT | | |
| Common stock, $0.00001 par value, 100,000,000 shares authorized, 11,218,457 shares issued and outstanding | 113 | 113 |
| Additional paid-in capital | 585,810 | 585,810 |
| Accumulated deficit during development stage | (686,621) | (633,058) |
| TOTAL STOCKHOLDERS' DEFICIT | (100,698) | (47,135) |
| | | |
| TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT | $ - | $ 12 |

The accompanying notes are an integral part of these unaudited financial statements.

DESIGN SOURCE, INC.
(A Development Stage Company)
STATEMENTS OF OPERATIONS

| | Three Months Ended December 31, 2009 (Unaudited) | Three Months Ended December 31, 2008 (Unaudited) | Nine Months Ended December 31, 2009 (Unaudited) | Nine Months Ended December 31, 2008 (Unaudited) | From Inception (April 2, 2003) through December 31, 2009 (Unaudited) |
|---|---|---|---|---|---|
| REVENUES | $ - | $ - | $ - | $ - | $ - |
| EXPENSES | | | | | |
| General and administrative | - | - | 426 | 1,171 | 64,739 |
| Professional fees | 6,098 | 3,188 | 48,854 | 25,139 | 260,383 |
| Taxes | - | - | - | - | 1,036 |
| Management fees | - | - | - | 236 | 29,155 |
| Stock based compensation | - | - | - | - | 327,500 |
| Total Expenses | 6,098 | 3,188 | 49,280 | 26,546 | 682,813 |
| LOSS FROM OPERATIONS | (6,098) | (3,188) | (49,280) | (26,546) | (682,813) |
| OTHER INCOME (EXPENSE) | | | | | |
| Interest income | - | - | 2 | - | 2,130 |
| Interest expense | (1,664) | - | (4,285) | - | (5,938) |
| Total Other Income (Expense) | (1,664) | - | (4,283) | - | (3,808) |
| NET LOSS | $ (7,762) | $ (3,188) | $ (53,563) | $ (26,546) | $ (686,621) |
| NET LOSS PER SHARE, BASIC AND DILUTED | $ (0.00) | $ (0.00) | $ (0.00) | $ (0.00) | |
| WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING, BASIC AND DILUTED | 11,218,457 | 11,218,457 | 11,218,457 | 11,218,457 | |

The accompanying notes are an integral part of these unaudited financial statements.

DESIGN SOURCE, INC.
(A Development Stage Company)
STATEMENTS OF CASH FLOWS

| | Nine Months Ended December 31, 2009 (Unaudited) | Nine Months Ended December 31, 2008 (Unaudited) | From Inception (April 2, 2003) through December 31, 2009 (Unaudited) |
|---|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | | |
| Net loss | $ (53,563) | $ (26,546) | $ (686,621) |
| Adjustments to reconcile net loss to net cash used in operating activities: | | | |
| Increase (decrease) in: | | | |
| Accounts payable | (30,734) | 4,188 | 16,413 |
| Accrued interest | 4,285 | - | 2,621 |
| Stock issued for compensation | - | - | 327,500 |
| Stock issued for reimbursement of expenses | - | - | 25,923 |
| Net cash used in operating activities | (80,012) | (22,358) | (314,164) |
| | | | |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | | |
| Proceeds from shareholder loans | - | - | 21,560 |
| Repayment of shareholder loans | - | - | (21,560) |
| Proceeds from convertible note | 80,000 | - | 80,000 |
| Proceeds from issuance of common stock | - | - | 232,500 |
| Net cash provided by financing activities | 80,000 | - | 312,500 |
| | | | |
| NET DECREASE IN CASH | (12) | (22,358) | (1,664) |
| | | | |
| CASH, BEGINNING OF PERIOD | 12 | 22,372 | - |
| | | | |
| CASH, END OF PERIOD | $ - | $ 14 | $ (1,664) |
| | | | |
| SUPPLEMENTAL CASH FLOW INFORMATION: | | | |
| Interest paid | $ - | $ - | $ 1,653 |
| Income taxes paid | $ - | $ - | $ - |

The accompanying notes are an integral part of these unaudited financial statements.

DESIGN SOURCE, INC.
(A Development Stage Company)
NOTES TO THE FINANCIAL STATEMENTS
As of and for the nine months ended December 31, 2009
(Unaudited)

NOTE 1 - ORGANIZATION AND BASIS OF PRESENTATION

Design Source, Inc. (hereinafter "the Company") was incorporated on April 2, 2003 under the laws of the State of Nevada for the purpose of offering textiles to the commercial designer market utilizing the internet. The Company's headquarters is located in Chapel Hill, North Carolina. The Company is a development stage Company.

The Company's year end is March 31.

The foregoing unaudited financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information. Accordingly, these financial statements do not include all of the disclosures required by generally accepted accounting principles in the United States of America for complete financial statements. These unaudited interim financial statements should be read in conjunction with the audited financial statements for the period ended March 31, 2009. In the opinion of management, the unaudited interim financial statements furnished herein include all adjustments, all of which are of a normal recurring nature, necessary for a fair statement of the results for the interim period presented. Operating results for the nine-month period ending December 31, 2009 are not necessarily indicative of the results that may be expected for the year ending March 31, 2010.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This summary of significant accounting policies is presented to assist in understanding the accompanying financial statements. The financial statements and notes are representations of the Company's management, which is responsible for their integrity and objectivity. These accounting policies conform to accounting principles generally accepted in the United States of America and have been consistently applied in the preparation of the financial statements.

Accounting Method

The Company's financial statements are prepared using the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

DESIGN SOURCE, INC.
(A Development Stage Company)
NOTES TO THE FINANCIAL STATEMENTS
As of and for the nine months ended December 31, 2009
(Unaudited)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Development Stage Activities

The Company has been in the development stage since its formation and has not realized any revenue from operations. The Company is a shell corporation which has yet to engage in its intended business of offering commercial upholstery, drapery, bedspread, panel and wall covering fabrics.

Going Concern

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As reflected in the financial statements, the Company incurred a net loss of $53,563 for the nine months ended December 31, 2009. In addition, the Company had an accumulated deficit of $686,621 as of December 31, 2009. Since its inception, the Company has not generated any revenues and has minimal cash resources.

These circumstances raise substantial doubt about the Company's ability to continue as a going concern. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. Management's efforts have been directed towards the development and implementation of a plan to generate sufficient revenues to cover all of its present and future costs and expenses. For the twelve-month subsequent period, the Company anticipates that its minimum operating cash requirements to continue as a going concern will be approximately $60,000.

The Company has determined that it cannot continue with its business operations as outlined in its original business plan because of a lack of financial results and resources; therefore, although it may return to its intended business operations at a later date, it has redirected its focus towards identifying and pursuing options regarding the development of a new business plan and direction. The Company intends to explore various business opportunities that have the potential to generate revenue, profits and cash flow in order to financially accommodate the costs of being a publicly held company. However, the Company cannot assure that there will be any business opportunities available nor the nature of the business opportunity, nor indication of the financial resources required of any possible business opportunity.

DESIGN SOURCE, INC.
(A Development Stage Company)
NOTES TO THE FINANCIAL STATEMENTS
As of and for the nine months ended December 31, 2009
(Unaudited)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The Company has minimal operating costs and expenses at the present time due to its limited business activities. The Company, however, will be required to raise additional capital over the next twelve months to meet its current administrative expenses, and may do so in connection with or in anticipation of possible acquisition transactions. This financing may take the form of additional sales of equity securities and/or loans from directors. There is no assurance that additional financing will be available, if required, or on terms favorable to the Company.

The financial statements do not include any adjustments relating to the recoverability and classification of recorded assets, or the amounts and classification of liabilities that might be necessary in the event the Company cannot continue in existence.

The accompanying financial statements have been prepared, in accordance with accounting principles generally accepted in the United States (“U.S. GAAP”) and pursuant to the rules and regulations of the Securities and Exchange Commission (the “SEC”).

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Company considers all short-term debt with original maturities of three months or less to be cash equivalents.

Fair Value of Financial Instruments

The Company's financial instruments may include cash, and accounts payable. All such instruments are accounted for on a historical cost basis, which, due to the short maturity of these financial instruments, approximates fair value at December 31, 2009 and March 31, 2009.

DESIGN SOURCE, INC.
(A Development Stage Company)
NOTES TO THE FINANCIAL STATEMENTS
As of and for the nine months ended December 31, 2009
(Unaudited)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Use of Estimates

The process of preparing financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions regarding certain types of assets, liabilities, and expenses. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

Provision for Taxes

Income taxes are provided based upon the liability method of accounting. Under this approach, deferred income taxes are recorded to reflect the tax consequences in future years of differences between the tax basis of assets and liabilities and their financial reporting amounts at each year-end. A valuation allowance is recorded against the deferred tax asset if management does not believe the Company has met the "more likely than not" standard to allow recognition of such an asset.

Basic and Diluted Earnings (Loss) Per Share

Basic earnings per share is calculated on the weighted effect of all common shares issued and outstanding, and is calculated by dividing net income available to common stockholders by the weighted average shares outstanding during the period. Diluted earnings per share, which is calculated by dividing net income available to common stockholders by the weighted average number of common shares used in the basic earnings per share calculation, plus the number of common shares that would be issued assuming conversion of all potentially dilutive securities outstanding, is not presented separately as it is anti-dilutive.

DESIGN SOURCE, INC.
(A Development Stage Company)
NOTES TO THE FINANCIAL STATEMENTS
As of and for the nine months ended December 31, 2009
(Unaudited)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Recently Issued Accounting Pronouncements

In May 2009, the FASB issued FASB ASC 855. FASB ASC 855 incorporates accounting and disclosure requirements related to subsequent events into U.S. GAAP. The requirements of FASB ASC 855 for subsequent-events accounting and disclosure are not significantly different from those in existing auditing standards, which we have historically followed for financial reporting purposes, as a result, we do not believe this standard had any material impact on our financial statements. We have evaluated subsequent events through the date of issuance of these consolidated financial statements, which is January 8, 2010.

In July 2009, the Financial Accounting Standards Board (“FASB”) issued new guidance relating to the “FASB Accounting Standards Codification” at FASB ASC 105, as the single source of authoritative nongovernmental U.S. generally accepted accounting principles (GAAP). The codification is effective for interim periods ending after September 15, 2009. All existing accounting standards are superseded as described in FASB ASC 105. All other accounting literature not included in the Codification is non-authoritative. The adoption of FASB ASC 105 did not impact our results of operations, financial position or cash flows.

In October, 2009, FASB issued ASC 470 that requires the proceeds from the issuance of certain convertible debt instruments to be allocated between a liability component (issued at a discount) and an equity component. The resulting debt discount is amortized over the period the convertible debt is expected to be outstanding as additional non-cash interest expense. The change in accounting treatment is effective for us in fiscal 2010, and it is required to be applied retrospectively to prior periods.

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

DESIGN SOURCE, INC.
(A Development Stage Company)
NOTES TO THE FINANCIAL STATEMENTS
As of and for the nine months ended December 31, 2009
(Unaudited)

NOTE 3 – CONVERTIBLE DEBT

On May 8, 2009, the Company issued a convertible promissory note in the principal amount of $80,000. This note is payable on November 8, 2010 and bears an interest rate of 8.25% per annum payable at the end of the term. The terms of conversion have not been determined as of the date of the filing of the 10 Q for the period ended December 31, 2009.

NOTE 4 - COMMON STOCK

The Company is authorized to issue 100,000,000 shares of $0.00001 par value common stock. All shares have equal voting rights, are non-assessable and have one vote per share. Voting rights are not cumulative and, therefore, the holders of more than 50% of the common stock could, if they choose to do so, elect all of the directors of the Company.

Upon incorporation, the Company issued 435,000 shares of common stock at a price of $0.05 per share as reimbursement of a cash advance in the amount of $1,000 and expenses paid personally by a director totaling $20,750.

During the period ending March 31, 2004, an additional 283,457 shares of common stock were issued at $0.05 per share for reimbursement of expenses paid personally by a director totaling $4,173 and for cash totaling $10,000.

During the period ending March 31, 2006, an additional 3,320,000 shares of common stock were issued at $0.05 per share for cash totaling $160,000 and subscription receivable of $6,000.

During the year ended March 31, 2007, 130,000 shares of common stock were issued at $0.05 per share for cash totaling $6,500 to outside investors; 6,550,000 shares of common stock were issued to its officers for compensation at $0.05 per share for $327,500 and $6,000 subscription receivable was received.

During the year ended March 31, 2008, 500,000 shares of common stock were issued at $0.10 per share for cash totaling $50,000 to Milestone Enhanced Fund Ltd;

DESIGN SOURCE, INC.
(A Development Stage Company)
NOTES TO THE FINANCIAL STATEMENTS
As of and for the nine months ended December 31, 2009
(Unaudited)

NOTE 4 - COMMON STOCK (continued)

During the year ended March 31, 2009, the Company had not issued any additional shares of common stock.

During the nine months ended December 31, 2009, the Company had not issued any additional shares of common stock.

NOTE 5 - RELATED PARTY DEBT AND TRANSACTIONS

In 2004 and 2005, Company directors loaned the Company a total of $21,560. The underlying notes were unsecured with interest at 5%, and a scheduled maturity of October 2007 for all principal and accrued interest. There were no monthly note payments due during the term of the loans. All shareholder loans and accrued interest had been repaid by fiscal 2007.

NOTE 6 - INCOME TAXES

At December 31, 2009 and March 31, 2009, he Company had calculated deferred tax assets of approximately $278,000 and $256,000, respectively, calculated at a combined federal and state expected rate of 40.5%. As management of the Company cannot determine that it is more likely than not that the Company will realize the benefit of the net deferred tax asset, a valuation allowance equal to the net deferred tax asset has been recorded.

The significant components of the deferred tax assets as December 31, 2009 and March 31, 2009 were as follows:

DESIGN SOURCE, INC.
(A Development Stage Company)
NOTES TO THE FINANCIAL STATEMENTS
As of and for the nine months ended December 31, 2009
(Unaudited)

NOTE 6 - INCOME TAXES (continued)

| | December 31, 2009 | | March 31, 2009 | |
|---|---|---|---|---|
| Net operating loss carryforward: | $ | 278,000 | $ | 256,000 |
| Valuation allowance: | $ | (278,000) | $ | (256,000) |
| Net deferred tax asset: | $ | - | $ | - |

At December 31, 2009 and March 31, 2009, the Company has net operating loss carryforwards of approximately $688,000 and $633,000, respectively, which expire in the year 2029. The change in the allowance account from March 31, 2009 to December 31, 2009 was approximately $22,000.

NOTE 7 - SUBSEQUENT EVENTS

As of February 3, 2010 there were no subsequent events.

## ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS

### Forward-Looking Statements

This section of the report includes a number of forward-looking statements that reflect our current views with respect to future events and financial performance. Forward-looking statements are often identified by words like: believe, expect, estimate, anticipate, intend, project and similar expressions, or words which, by their nature, refer to future events. You should not place undue certainty on these forward-looking statements, which apply only as of the date of this report. These forward-looking statements are subject to certain risks and uncertainties that could cause actual results to differ materially from historical results or our predictions.

### Plan of Operation

We were incorporated on April 2, 2003, to offer a comprehensive supply of, market and distribute commercial upholstery, drapery, bedspread, panel, and wall covering fabrics to the interior designer industry and individual retail customers on our proprietary Internet website. We have determined that we cannot continue with our business operations as outlined in our original business plan because of a lack of financial results and resources; therefore, although we may return to our intended business operations at a later date, we have redirected our focus towards identifying and pursuing options regarding the development of a new business plan and direction. We intend to explore various business opportunities that have the potential to generate positive revenue, profits and cash flow in order to financially accommodate the costs of being a publicly held company. However, we cannot assure that there will be any other business opportunities available nor the nature of the business opportunity, if any, nor any indication of the financial resources required to take advantage of any possible business opportunity.

We have minimal operating costs and expenses at the present time due to our limited business activities. We may, however, be required to raise additional capital over the next twelve months to meet our current administrative expenses, and we may do so in connection with or in anticipation of possible acquisition transactions. This financing may take the form of additional sales of our equity securities, loans from our directors, or other transactions. There can be no assurance that additional financing would be available to us if required, or that the terms would be favorable to us and our stockholders.

We are not currently engaging in any product research and development and have no plans to do so in the foreseeable future. We have no present plans to purchase or sell any plant or significant equipment. We also have no present plans to add employees although we may do so in the future if we engage in any merger or acquisition transactions.

### Results of Operations

For the period from inception (April 2, 2003) to December 31, 2009, we had no operating revenues and incurred a net loss of $686,621. For the three and nine months ended December 31, 2009 we incurred net losses of $7,762 and $53,563, respectively, which consisted principally of professional fees. For the three and nine months ended December 31, 2008, we incurred net losses of $3,188 and $26,546, respectively, which consisted principally of professional fees and general and administrative expenses primarily incurred in connection with the preparation and filing of our ongoing SEC filing requirements.

Liquidity and Capital Resources

Our cash at December 31, 2009 and March 31, 2009, was $0 and $12, respectively. In order to satisfy our cash requirements for the current period we will have to raise additional funds as described above. There can be no assurance that we will be able to do so.

Net cash used in operating activities in the nine months ended December 31, 2009 and December 31, 2008, was $80,012 and $22,358, respectively. Net cash used in operating activities from inception through December 31, 2009, was $314,164. Net cash provided by financing activities from inception through December 31, 2009, was $312,500. We had $80,000 of financing activity in the nine months ended December 31, 2009 and no financing activity in the nine months ended December 31, 2008. Our independent registered public accounting firm has expressed the opinion that in our current condition, there is substantial doubt about our ability to continue as a going concern. Please refer to Note 2, Summary of Significant Accounting Policies, of the financial statements included in this report.

Off-Balance Sheet Arrangements

We have no off-balance sheet arrangements.

Critical Accounting Policies

A. Basis of Accounting

The Company’s financial statements are prepared using the accrual method of accounting. The Company has elected a March 31 fiscal year-end.

B. Basic Earnings Per Share

The Company utilizes the guidance per FASB Codification “ASC 260 "Earnings Per Share". Basic earnings per share is calculated on the weighted effect of all common shares issued and outstanding, and is calculated by dividing net income available to common stockholders by the weighted average shares outstanding during the period. Diluted net income per share is computed by dividing net income for the period by the weighted-average number of common share equivalents during the period.

Basic net loss per share amounts are computed by dividing the net loss by the weighted average number of common shares outstanding.

C. Cash Equivalents

The Company considers all highly liquid investments, if any, purchased with an original maturity of three months or less to be cash equivalents.

D. Use Of Estimates and Assumptions

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

E. Income Taxes

Income taxes are accounted for in accordance with the provisions of FASB ASC-740-Income Taxes. ASC-740 requires the recognition of deferred tax assets and liabilities to reflect the future tax consequences of events that have been recognized in the Company's financial statements or tax returns. Measurement of the deferred items is based on enacted tax laws. In the event the future consequences of differences between financial reporting bases and tax bases of the Company's assets and liabilities result in a deferred tax asset, ASC-740 requires an evaluation of the probability of being able to realize the future benefits indicated by such assets. A valuation allowance related to a deferred tax asset is recorded when it is more likely than not that some or the entire deferred tax asset will not be realized.

For federal income tax purposes, substantially all expenses must be deferred until the Company commences business and then they may be written off over a 60-month period. These expenses will not be deducted for tax purposes and will represent a deferred tax asset. The Company will provide a valuation allowance in the full amount of the deferred tax asset since there is no assurance of future taxable income. Tax deductible losses can be carried forward under current applicable law for 20 years until utilized.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not Applicable.

## ITEM 4T. CONTROLS AND PROCEDURES

Evaluation of Our Disclosure Controls

Under the supervision and with the participation of our senior management, including our chief executive officer and chief financial officer, Peter Reichard, we conducted an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the “Exchange Act”), as of the end of the period covered by this quarterly report (the “Evaluation Date”). Based on this evaluation, our chief executive officer and chief financial officer concluded as of the Evaluation Date that our disclosure controls and procedures were effective such that the information relating to us, required to be disclosed in our Securities and Exchange Commission (“SEC”) reports (i) is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms, and (ii) is accumulated and communicated to our management, including our chief executive officer and chief financial officer, as appropriate to allow timely decisions regarding required disclosure.

Limitations on Effectiveness of Controls and Procedures

Our management, including Peter Reichard, our Chief Executive and Financial Officer, does not expect that our disclosure controls and procedures or our internal controls will prevent all errors and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected. These inherent limitations include, but are not limited to, the realities that judgments in decision-making can be faulty and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the control. The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Over time, controls may become inadequate because of changes in conditions, or the degree of compliance with the policies or procedures may deteriorate. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

Changes in Internal Control Over Financial Reporting

There have been no changes in our internal control over financial reporting that occurred during the quarter ended December 31, 2009 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

In the ordinary course of our business, we may from time to time become subject to routine litigation or administrative proceedings which are incidental to our business. We are not a party to nor are we aware of any existing, pending or threatened lawsuits or other legal actions involving us.

ITEM 1A. RISK FACTORS

Not applicable.

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

We did not issue any equity securities during the quarter ended December 31, 2009.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

In reviewing the agreements included as exhibits to this Form 10-Q, please remember that they are included to provide you with information regarding their terms and are not intended to provide any other factual or disclosure information about the Company or the other parties to the agreements. The agreements may contain representations and warranties by each of the parties to the applicable agreement. These representations and warranties have been made solely for the benefit of the parties to the applicable agreement and:

- should not in all instances be treated as categorical statements of fact, but rather as a way of allocating the risk to one of the parties if those statements prove to be inaccurate;

- have been qualified by disclosures that were made to the other party in connection with the negotiation of the applicable agreement, which disclosures are not necessarily reflected in the agreement;

- may apply standards of materiality in a way that is different from what may be viewed as material to you or other investors; and

- were made only as of the date of the applicable agreement or such other date or dates as may be specified in the agreement and are subject to more recent developments.

Accordingly, these representations and warranties may not describe the actual state of affairs as of the date they were made or at any other time. Additional information about the Company may be found elsewhere in this Form 10-Q and the Company's other public filings, which are available without charge through the SEC's website at http://www.sec.gov.

The following exhibits are included as part of this report:

| Exhibit No. | Description |
|---|---|
| 31.1 / 31.2 | Rule 13(a)-14(a)/15(d)-14(a) Certification of Principal Executive and Financial Officer |
| 32.1 / 32.2 | Rule 1350 Certification of Chief Executive and Financial Officer |

SIGNATURES

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

| | |
|---|---|
| Date: February 3, 2010 | Design Source, Inc. |
| | By: /s/ Peter Reichard |
| | Peter Reichard, President, Principal Executive Officer, Treasurer, Principal Financial Officer, and Principal Accounting Officer |