Medical Design Studios, Inc.
Form 10-Q
August 14, 2008

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

FORM 10-Q

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

For the quarterly period ended June 30, 2008

¨ **TRANSITION REPORT UNDER 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, 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 x 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 o	Accelerated Filer o
Non-accelerated Filer o	Smaller Reporting Company x

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No x

As of August 12, 2008, 5,000,000 shares of the issuer’s Common Stock were outstanding.

MEDICAL DESIGN STUDIOS, INC.

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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

MEDICAL DESIGN STUDIOS, INC.
Balance Sheets

ASSETS		June 30, 2008 (Unaudited)		December 31, 2007
Current Assets:				
Cash	$	500	$	500
Accounts receivable		27,150		37,825
Total current assets		27,650		38,325
Equipment:				
Computer equipment		29,793		18,075
Accumulated depreciation		(9,955)		(6,319)
Net		19,838		11,756
TOTAL ASSETS	$	47,488	$	50,081
LIABILITIES AND STOCKHOLDERS' EQUITY				
Liabilities				
Accrued expenses	$	24,888	$	25,086
Stockholders' Equity:				
Preferred stock: $0.001 par value; authorized, 1,000,000 shares; no shares issued or outstanding				-
Common stock: $0.001 par value; authorized 74,000,000 shares; 5,000,000 shares issued and outstanding		5,000		5,000
Additional paid-in capital		5,000		5,000
Retained earnings		12,600		14,995
Total stockholders’ equity		22,600		24,995
TOTAL LIABILITIES AND STOCKHOLDERS’ EQUITY	$	47,488	$	50,081

See accompanying notes to financial statements.

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MEDICAL DESIGN STUDIOS, INC.

Statements of Operations
For the Six Months Ended June 30, 2008 and 2007
(Unaudited)

		2008		2007
Revenue	$	74,100	$	138,425
Operating Expenses:				
General and administrative		22,532		28,447
Compensation		53,963		99,205
Total operating expenses		76,495		127,652
Income (loss) before income taxes		(2,395)		10,773
Provision for income taxes		-		2,705
Net income (loss)	$	(2,395)	$	8,068
Income (loss) per share - basic and diluted	$	(0.00)	$	0.00
Weighted average number of common shares outstanding - basic and diluted		5,000,000		4,710,276

See accompanying notes to the financial statements.

MEDICAL DESIGN STUDIOS, INC.

Statements of Operations
For the Three Months Ended June 30, 2008 and 2007
(Unaudited)

	2008	2007
Revenue	$ 28,885	$ 83,950
Operating Expenses:		
General and administrative	8,680	15,590
Compensation	15,515	62,911
Total operating expenses	24,195	78,501
Income before income taxes	4,690	5,449
Provision for income taxes	-	1,907
Net income	$ 4,690	$ 3,542
Net Income per share - basic and diluted	$ 0.00	$ 0.00
Weighted average number of common shares outstanding - basic and diluted	5,000,000	4,799,561

See accompanying notes to the financial statements.

MEDICAL DESIGN STUDIOS, INC.

Statements of Cash Flows
For the Six Months Ended June 30, 2008 and 2007

(Unaudited)

		2008		2007
CASH FLOWS FROM OPERATING ACTIVITIES:				
Net income (loss)	$	(2,395)	$	8,068
Depreciation		3,636		1,682
Adjustments to reconcile net income (loss) to net cash provided by operating activities:				
Change in net operating assets		10,477		(10,510)
Net Cash Provided (Used) by Operating Activities		11,718		(760)
CASH FLOWS FROM INVESTING ACTIVITIES				
- Purchase of computer		(11,718)		-
CASH FLOWS FROM FINANCING ACTIVITIES				
Sale of common shares		-		760
CHANGE IN CASH		-		-
CASH AT BEGINNING OF PERIOD		500		500
CASH AT END OF PERIOD	$	500	$	500

See accompanying notes to the financial statements.

MEDICAL DESIGN STUDIOS, INC.

Notes to Unaudited Financial Statements

June 30, 2008 and 2007

(Unaudited)

NOTE 1 BASIS OF PRESENTATION

The accompanying interim financial statements for the three and six-month periods ended June 30, 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 six months ended June 30, 2008, four unrelated customers (High Impact Litigation (11.81%), The Visual Advantage (9.45%), Legal Wizard (10.66%), and Trial Exhibits, Inc. (65.72%)) comprised 97.64% of total revenues.

For the six months ended June 30, 2007, four unrelated customers (High Impact Litigation (34.51%), The Visual Advantage (20.25%), Legal Wizard (9.29%) and Trial Exhibits, Inc. (21.40%)) comprised 85.45% 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.

The following discussion and analysis provides information which our management believes to be relevant to an assessment and understanding of the 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. At June 30, 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 six months ended June 30, 2008 and 2007

A summary of operations follows:

		2008		2007
Revenue	$	74,100	$	138,425
Operating Expenses:				
General and administrative		22,532		28,447
Compensation		53,963		99,205
Total operating expenses		76,495		127,652
Income (loss) before income taxes		(2,395)		10,773
Provision for income taxes		-		2,705
Net income (loss)	$	(2,395)	$	8,068

Revenue - For the six months ended June 30, 2008, four unrelated customers (High Impact Litigation (11.81%), The Visual Advantage (9.45%), Legal Wizard (10.66%), and Trial Exhibits, Inc. (65.72%)) comprised 97.64% of total revenues.

For the six months ended June 30, 2007, four unrelated customers (High Impact Litigation (34.51%), The Visual Advantage (20.25%), Legal Wizard (9.29%) and Trial Exhibits, Inc. (21.40%)) comprised 85.45% of total revenues.

Compensation relates entirely to Justin Craig.

General and administrative consist of:

		2008		2007
Automobile	$	467	$	973
Computer supplies		942		885
Depreciation		3,636		1,682
Dues		104		395
Employee benefits		5,294		9,144
Entertainment		463		468
Internet expenses		130		556
Office expense		2,000		1,175
Outside services		5,474		7,201
Rent		1,200		2,400
Repairs and maintenance		916		312
Salaries		600		1,400
Taxes		46		46
Telephone		436		723
Travel		824		1,087
Total	$	22,532	$	28,447

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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 as 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 stockholders 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.

In becoming a public company, we 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 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.

There are no current plans to seek private investment. We do not have any current plans to raise funds through the sale of securities. As previously stated, 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 makes 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 such 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 stockholders, may further dilute common stock book value, and that dilution may be material. Such issuances may also serve to enhance our existing management's ability to maintain control of our company because the shares may be issued to parties or entities committed to supporting existing management.

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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.

Seasonality

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

Recent Accounting Pronouncements

In September 2006, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 157, "Fair Value Measurements" ("SFAS 157"). SFAS 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 157 is effective as of the beginning of the first fiscal year beginning after November 15, 2007. Effective January 1, 2008, we adopted SFAS 157 for financial assets and liabilities recognized at fair value on a recurring basis. The partial adoption of SFAS 157 for financial assets and liabilities did not have a material impact on our financial position or results of operations.

On February 15, 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities: Including an amendment of FASB Statement No. 115" ("SFAS 159"). SFAS 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 159 is effective as of the beginning of the first fiscal year that begins after November 15, 2007, with earlier adoption permitted. Effective January 1, 2008, we adopted SFAS 159. The adoption of SFAS 159 did not have a material impact on our financial position or results of operations.

In June 2007, the Emerging Issues Task Force ("EITF") of the FASB issued EITF Issue No. 07-3, "Accounting for Nonrefundable Advance Payments for Goods or Services to be Used in Future Research and Development Activities" ("EITF Issue No. 07-3"), which is effective for fiscal years beginning after December 15, 2007. EITF Issue No. 07-3 requires that nonrefundable advance payments for future research and development activities be deferred and capitalized. Such amounts will be recognized as an expense as the goods are delivered or the related services are performed. The adoption of EITF Issue No. 07-3 did not have a material impact on our financial results .

In December 2007, the FASB issued SFAS No. 141 (Revised 2007), "Business Combinations" ("SFAS 141(R)"), which requires us to record fair value estimates of contingent consideration and certain other potential liabilities during the original purchase price allocation, expense acquisition costs as incurred and does not permit certain restructuring activities previously allowed under EITF Issue No. 95-3 to be recorded as a component of purchase accounting. SFAS 141(R) applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008, except for the presentation and disclosure requirements, which shall be applied retrospectively for all periods presented. We will adopt this standard at the beginning of our 2009 fiscal year for all prospective business acquisitions. We have not determined the effect that the adoption of SFAS 141(R) will have on our financial statements.

In December 2007, the FASB issued SFAS No. 160, "Noncontrolling Interests in Consolidated Financial Statements - an amendment of ARB No. 51" ("SFAS 160"), which causes noncontrolling interests in subsidiaries to be included in the equity section of the balance sheet. SFAS 160 applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008, except for the presentation and disclosure requirements, which shall be applied retrospectively for all periods presented. We will adopt this standard at the beginning of our 2009 fiscal year for all prospective business acquisitions. We have not determined the effect that the adoption of SFAS 160 will have on our financial statements.

In March 2008, the FASB issued SFAS No. 161, "Disclosures about Derivative Instruments and Hedging Activities an amendment of FASB Statement No. 133" ("SFAS 161"), which changes the disclosure requirements for derivative instruments and hedging activities. Pursuant to SFAS 161, entities are required to provide enhanced disclosures about (a) how and why an entity uses derivative instruments, (b) how derivative instruments and related hedged items are accounted for under SFAS No. 133 and its related interpretations, and (c) how derivative instruments and related hedged items affect an entity's financial position, financial performance, and cash flows. SFAS 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008 with early application encouraged. SFAS 161 encourages but does not require disclosures for earlier periods presented for comparative purposes at initial adoption. In years after initial adoption, SFAS 161 requires comparative disclosures only for periods subsequent to initial adoption. We will adopt this standard at the beginning of our 2009 fiscal year. We do not expect the adoption of SFAS 161 to have a material impact on our financial results.

The FASB, the EITF and the U.S. Securities and Exchange Commission have issued certain other accounting pronouncements and regulations as of June 30, 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 and six months ended June 30, 2008 and 2007, and it does 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.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not required.

ITEM 4T. CONTROLS AND PROCEDURES