

Design Source, Inc.
Form 10-Q
August 12, 2010

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

FORM 10-Q

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

For the quarterly period ended June 30, 2010

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 registrant as specified in its charter)

Nevada
(State or other jurisdiction of incorporation
or organization)

36-4528166
(I.R.S. Employer Identification No.)

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 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
(Do not check if a smaller reporting company)

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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 11, 2010 there were 11,218,457 shares of the issuer's common stock, par value \$0.00001, outstanding.

DESIGN SOURCE, INC.
FORM 10-Q
FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2010
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PART I – FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

| | June 30, 2010 (Unaudited) | March 31, 2010 (Audited) |
|--|---------------------------------|--------------------------------|
| ASSETS | | |
| CURRENT ASSETS | | |
| Cash | \$ 38,865 | \$ - |
| TOTAL ASSETS | \$ 38,865 | \$ - |
| LIABILITIES AND STOCKHOLDERS' DEFICIT | | |
| CURRENT LIABILITIES | | |
| Accounts payable | \$ 13,216 | \$ 23,195 |
| Convertible debt (including accrued interest) | 87,558 | - |
| TOTAL CURRENT LIABILITIES | 100,774 | 23,195 |
| Convertible debt (including accrued interest) | 76,048 | 85,912 |
| TOTAL LIABILITIES | 176,822 | 109,107 |
| 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 | (723,880) | (695,030) |
| TOTAL STOCKHOLDERS' DEFICIT | (137,957) | (109,107) |
| TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT | \$ 38,865 | \$ - |

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

| | Three Months Ended | | From Inception (April 2, 2003) through |
|--|---------------------------------|---------------------------------|---|
| | June 30, 2010 (Unaudited) | June 30, 2009 (Unaudited) | June 30, 2010 (Unaudited) |
| REVENUES | \$ - | \$ - | \$ - |
| EXPENSES | | | |
| General and administrative | - | 426 | 64,739 |
| Professional fees | 26,161 | 34,094 | 293,326 |
| Taxes | - | - | 1,036 |
| Management fees | - | - | 29,155 |
| Stock based compensation | - | - | 327,500 |
| Total Expenses | 26,161 | 34,520 | 715,756 |
| LOSS FROM OPERATIONS | (26,161) | (34,520) | (715,756) |
| OTHER INCOME (EXPENSE) | | | |
| Interest income | 5 | 2 | 2,133 |
| Interest expense | (2,694) | (958) | (10,257) |
| Total Other Income (Expense) | (2,689) | (956) | (8,124) |
| NET LOSS | \$ (28,850) | \$ (35,476) | \$ (723,880) |
| NET LOSS PER SHARE, BASIC AND DILUTED | \$ (0.00) | \$ (0.00) | |
| WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING, BASIC AND DILUTED | 11,218,457 | 11,218,457 | |

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

| | Three Months Ended | | From Inception (April 2, 2003) |
|---|---------------------------------|---------------------------------|--|
| | June 30, 2010 (Unaudited) | June 30, 2009 (Unaudited) | through June 30, 2010 (Unaudited) |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | | |
| Net loss | \$ (28,850) | \$ (35,476) | \$ (723,880) |
| Adjustments to reconcile net loss to net cash used in operating activities: | | | |
| Increase (decrease) in: | | | |
| Accounts payable | (9,979) | (35,413) | 13,216 |
| Accrued interest | 2,694 | 958 | 8,606 |
| Stock issued for compensation | - | - | 327,500 |
| Stock issued for reimbursement of expenses | - | - | 25,923 |
| Net cash used in operating activities | (36,135) | (69,931) | (348,635) |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | | |
| Proceeds from stockholder loans | - | - | 21,560 |
| Repayment of stockholder loans | - | - | (21,560) |
| Proceeds from convertible note | 75,000 | 80,000 | 155,000 |
| Proceeds from issuance of common stock | - | - | 232,500 |
| Net cash provided by financing activities | 75,000 | 80,000 | 387,500 |
| NET INCREASE IN CASH | 38,865 | 10,069 | 38,865 |
| CASH, BEGINNING OF PERIOD | - | 12 | - |
| CASH, END OF PERIOD | \$ 38,865 | \$ 10,081 | \$ 38,865 |
| SUPPLEMENTAL CASH FLOW INFORMATION: | | | |
| Interest paid | \$ - | \$ - | \$ 1,653 |
| Income taxes paid | \$ - | \$ - | \$ - |

DESIGN SOURCE, INC.

(A Development Stage Company)
NOTES TO THE FINANCIAL STATEMENTS
As of and for the three months ended June 30, 2010
(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 enterprise.

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, 2010. 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 three-month period ending June 30, 2010 are not necessarily indicative of the results that may be expected for the year ending March 31, 2011.

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.

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 \$28,850 for the three months ended June 30, 2010. In addition, the Company had an accumulated deficit of \$723,880 at June 30, 2010. 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 consolidated 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.

DESIGN SOURCE, INC.

(A Development Stage Company)
NOTES TO THE FINANCIAL STATEMENTS
As of and for the three months ended June 30, 2010
(Unaudited)

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 resources; therefore, although it may return to its intended business operations at a later date, management has redirected their 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 positive 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 other business opportunities available nor the nature of the business opportunity, nor indication of the financial resources required of any possible business opportunity.

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 it 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.

On May 10, 2010 the Company received funding amounting to \$75,000 in connection with the issuance of a convertible note.

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 June 30, 2010 and March 31, 2010.

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, revenues, 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.

DESIGN SOURCE, INC.
(A Development Stage Company)
NOTES TO THE FINANCIAL STATEMENTS
As of and for the three months ended June 30, 2010
(Unaudited)

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

Derivative Liabilities

The Company accounts for its embedded conversion features in its convertible debentures in accordance FASB ASC 815-10 (Prior authoritative literature: SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities", which requires a periodic valuation of their fair value and a corresponding recognition of liabilities associated with such derivatives, and FASB ASC 815-40 Section 05, "Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company's Own Stock. The recognition of derivative liabilities related to the issuance of convertible debt is applied first to the proceeds of such issuance as a debt discount, at the date of issuance, and the excess of derivative liabilities over the proceeds is recognized as "Loss on Valuation of Derivative" in other expense in the accompanying financial statements. Any subsequent increase or decrease in the fair value of the derivative liabilities is recognized as "Other expense" or "Other income", respectively.

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.

Recently Issued Accounting Pronouncements Affecting the Company

In October 2009, the FASB issued guidance for amendments to FASB Emerging Issues Task Force on EITF Issue No. 09-1 "Accounting for Own-Share Lending Arrangements in Contemplation of a Convertible Debt Issuance or Other Financing" (Subtopic 470-20) "Subtopic". This accounting standards update establishes the accounting and reporting guidance for arrangements under which own-share lending arrangements issued in contemplation of convertible debt issuance. This Statement is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2009. Earlier adoption is not permitted. Management believes this Statement will have no impact on the consolidated financial statements of the Company once adopted.

In December 2009, the FASB issued guidance for Consolidations – Improvements to Financial Reporting by Enterprises Involved with Variable Interest Entities (Topic 810). The amendments in this update are a result of incorporating the provisions of SFAS No. 167, Amendments to FASB Interpretation No. 46(R). The provisions of such Statement are effective for fiscal years, and interim periods within those fiscal years, beginning on or after November 15, 2009. Earlier adoption is not permitted. The presentation and disclosure requirements shall be applied

prospectively for all periods after the effective date. Management believes this Statement will have no impact on the consolidated financial statements of the Company once adopted.

DESIGN SOURCE, INC.
(A Development Stage Company)
NOTES TO THE FINANCIAL STATEMENTS
As of and for the three months ended June 30, 2010
(Unaudited)

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

In January 2010, the FASB issued ASU 2010-06, Fair Value Measurements and Disclosures (Topic 820) Improving Disclosures about Fair Value Measurements, which enhances the usefulness of fair value measurements. The amended guidance requires both the disaggregation of information in certain existing disclosures, as well as the inclusion of more robust disclosures about valuation techniques and inputs to recurring and nonrecurring fair value measurements. The amended guidance is effective for interim and annual reporting periods beginning after December 15, 2009, except for the disaggregation requirement for the reconciliation disclosure of Level 3 measurements, which is effective for fiscal years beginning after December 15, 2010 and for interim periods within those years. The Company does not anticipate that this pronouncement will have a material impact on its results of operations or financial position.

Effective May 10, 2010, the Company adopted FASB ASC Topic No. 815 – 40, Derivatives and Hedging - Contracts in Entity's Own Stock (formerly Emerging Issues Task Force Issue No. 07-5, Determining Whether an Instrument or Embedded Feature is Indexed to an Entity's Own Stock). The adoption of FASB ASC Topic No. 815 –40's requirements can affect the accounting for warrants and many convertible instruments with provisions that protect holders from a decline in the stock price (or "down-round" provisions). As a result of the Company issuing a convertible note on May 10, 2010, the Company adopted ASC Topic No. 815 – 40, Derivatives and Hedging - Contracts in Entity's Own Stock (formerly Emerging Issues Task Force Issue No. 07-5, Determining Whether an Instrument or Embedded Feature is Indexed to an Entity's Own Stock). See Note 4 for further discussion.

In February 2010, the FASB issued Accounting Standards Update (ASU) No. 2010-08—Technical Corrections to Various Topics. This update's purpose is to eliminate GAAP inconsistencies, update outdated provisions, and provide needed clarifications. The adoption of ASU No. 2010-08 will not have a material impact on the Company's financial statements.

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.

NOTE 3 – EQUITY TRANSACTIONS

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.

DESIGN SOURCE, INC.
(A Development Stage Company)
NOTES TO THE FINANCIAL STATEMENTS
As of and for the three months ended June 30, 2010
(Unaudited)

NOTE 3 – EQUITY TRANSACTIONS (continued)

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 share 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;

During the years ended March 31, 2010 and 2009, the Company had issued no additional shares of common stock.

During the three months ended June 30, 2010, the Company had issued no additional shares of common stock.

NOTE 4 – CONVERTIBLE DEBT AND DERIVATIVES

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 debt balance and accrued interest balance as of June 30, 2010 amounts to \$80,000 and \$7,558, respectively. The terms of conversion have not been determined as of the date of the filing of the 10 Q for the period ended June 30, 2010.

On May 10, 2010 the Company received funding amounting to \$75,000 from an investor and in connection therewith issued a 10%, \$75,000 convertible note dated May 10, 2010 (the “Note”). Subject to prepayment, interest and principal are due on November 9, 2011, unless its term is mutually extended by both parties. At all times while the Note is outstanding, the Note is convertible into shares of our common stock at the rate of \$0.10 per share, subject to adjustment for stock splits, business combinations, mergers, reclassifications, sales of assets and similar transactions (the “Fixed Conversion Price”). Further, if at any time while the Note is outstanding we issue shares of our common stock at a price below the then Fixed Conversion Price, the Fixed Conversion Price shall be reduced to such lower issue price.

The Note contains ratchet provisions which adjust the conversion price of the Units if the Company issues common stock at a price lower than the fixed conversion prices in the 10% Convertible Note Payable. As a result, the Company adopted ASC Topic No. 815 – 40, Derivatives and Hedging - Contracts in Entity’s Own Stock (formerly Emerging Issues Task Force Issue No. 07-5, Determining Whether an Instrument or Embedded Feature is Indexed to an Entity’s Own Stock) and determined that the underlying Units are not indexed to the Company’s common stock and should be valued at fair value at the date of issuance and at each subsequent interim period.

Down-round provisions reduce the exercise price of a convertible instrument if a company either issues new warrants or convertible instruments that have a lower exercise price.

The Company has performed a complete assessment of its embedded conversion features in connection with its convertible loans utilizing the Black Scholes model and concluded that the conversion features issued in connection with the convertible loan are within the scope of ASC 815 due to the down-round provisions included in the terms of the agreements.

DESIGN SOURCE, INC.
(A Development Stage Company)
NOTES TO THE FINANCIAL STATEMENTS
As of and for the three months ended June 30, 2010
(Unaudited)

NOTE 4 – CONVERTIBLE DEBT AND DERIVATIVES (continued)

Based on these calculations, the Company determined that the value of the derivative was \$0 on the date of issuance (May 10, 2010), and as a result, there was no discount on the convertible debt as of June 30, 2010. The Company, every quarter, will perform a valuation of the derivative.

The debt balance and accrued interest balance as of June 30, 2010 amounts to \$75,000 and \$1,048, respectively.

NOTE 5 – INCOME TAXES

At June 30, 2010 and March 31, 2010, the Company had a deferred tax asset of approximately \$294,000 and \$282,000 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 at June 30, 2010 and March 31, 2010 were as follows:

| | June 30 2010 | March 31, 2010 |
|---|-----------------|-------------------|
| Deferred tax asset-net operating losses | \$ 294,000 | \$ 282,000 |
| Deferred tax asset valuation allowance | (294,000) | (282,000) |
| Net deferred tax asset | \$ - | \$ - |

The reconciliation between the statutory federal income tax rate of 35% to the actual rate is as follows:

| | June 30 2010 | March 31, 2010 |
|--|-----------------|-------------------|
| Expected Federal tax (benefit) | \$ (10,000) | \$ (22,000) |
| State tax (benefit), net of Federal effect | (2,000) | (3,000) |
| Permanent differences | - | - |
| Valuation allowance | 12,000 | 25,000 |
| Effective tax rate | \$ - | \$ - |

At June 30, 2010 and March 31, 2010, the Company has net operating loss carry forwards of \$725,000 and \$696,000 respectively, which begin to expire in the year 2010. The change in the allowance account from June 30, 2010 to March 31, 2010 was \$12,000.

NOTE 6 - 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 in the fiscal year 2007.

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 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 we will successfully identify a new business opportunity nor can we provide 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 June 30, 2010, we had no operating revenues and incurred a net loss of \$723,880. For the three months ended June 30, 2010 we incurred net losses of \$28,850, which consisted principally of professional fees. For the three months ended June 30, 2009, we incurred net losses of \$35,476, which consisted principally of professional fees and general and administrative expenses primarily incurred in connection with the preparation and filing of our ongoing SEC reports.

Liquidity and Capital Resources

Our cash at June 30, 2010 and March 31, 2010, was \$38,865 and \$0, 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 three months ended June 30, 2010 and June 30, 2009 was \$36,135 and \$69,931, respectively. Net cash used in operating activities from inception through June 30, 2010 was \$348,635. Net cash provided by financing activities from inception through June 30, 2010 was \$387,500. We had \$75,000 of financing activity in the three months ended June 30, 2010. 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.

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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. Based on this evaluation, our chief executive officer and chief financial officer concluded that, as of the end of the period covered by this report, our disclosure controls and procedures were effective such that the information relating to us, required to be disclosed in our Securities and Exchange Commission 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 officer and chief 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 June 30, 2010 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 June 30, 2010.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

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ITEM 4. (Removed and Reserved)

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

- | | |
|-------------|---|
| 4.1 | Form of \$75,000 10% Convertible Promissory Note |
| 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: August 13, 2010

Design Source, Inc.

By: /s/ Peter Reichard
Peter Reichard, President, Principal Executive
Officer, Treasurer, Principal Financial Officer, and
Principal Accounting Officer