Design Source, Inc.
Form 10-Q
February 12, 2009

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, 2008
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 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 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 ¨ (Do not check if a smaller reporting company)	Smaller reporting company x

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

As of February 10, 2009 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, 2008
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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

	December 31, 2008 (Unaudited)	March 31, 2008 (Audited)
ASSETS		
CURRENT ASSETS		
Cash	$ 14	$ 22,372
TOTAL ASSETS	$ 14	$ 22,372
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)		
CURRENT LIABILITIES		
Accounts payable	$ 9,188	$ 5,000
TOTAL CURRENT LIABILITIES	9,188	5,000
TOTAL LIABILITIES	9,188	5,000
COMMITMENTS AND CONTINGENCIES	-	-
STOCKHOLDERS' EQUITY (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	(595,097)	(568,551)
TOTAL STOCKHOLDERS' EQUITY (DEFICIT)	(9,174)	17,372
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)	$ 14	$ 22,372

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

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

	Three Months Ended		Nine Months Ended		From Inception (April 2, 2003) through
	December 31, 2008 (Unaudited)	December 31, 2007 (Unaudited)	December 31, 2008 (Unaudited)	December 31, 2007 (Unaudited)	December 31, 2008 (Unaudited)
REVENUES	$ -	$ -	$ -	$ -	$ -
EXPENSES					
General and administrative	-	153	1,171	315	64,300
Professional fees	3,188	6,450	25,139	8,916	173,581
Taxes	-	-	-	-	1,036
Management fees	-	-	236	-	29,155
Stock compensation	-	-	-	-	327,500
Total Expenses	3,188	6,603	26,546	9,231	595,572
LOSS FROM OPERATIONS	(3,188)	(6,603)	(26,546)	(9,231)	(595,572)
OTHER INCOME (EXPENSE)					
Interest income	-	-	-	6	2,128
Interest expense	-	-	-	-	(1,653)
Total Other Income (Expense)	-	-	-	6	475
LOSS BEFORE TAXES	(3,188)	(6,603)	(26,546)	(9,225)	(595,097)
INCOME TAX EXPENSE	-	-	-	-	-
NET LOSS	$ (3,188)	$ (6,603)	$ (26,546)	$ (9,225)	$ (595,097)
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	10,718,457	11,218,457	10,718,457	

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

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

	Nine Months Ended December 31, 2008 (Unaudited)	Nine Months Ended December 31, 2007 (Unaudited)	From Inception (April 2, 2003) through December 31, 2008 (Unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net loss	$ (26,546)	$ (9,225)	$ (595,097)
Adjustments to reconcile net loss to net cash used in operating activities:			
Increase in accounts payable	4,188	4,202	9,188
Stock issued for compensation	-	-	327,500
Issuance of common stock for reimbursement of expenses	-	-	25,923
Net cash used in operating activities	(22,358)	(5,023)	(232,486)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from shareholder loans	-	-	21,560
Repayment of shareholder loans	-	-	(21,560)
Proceeds from issuance of common stock	-	-	232,500
Net cash provided by financing activities	-	-	232,500
NET INCREASE (DECREASE) IN CASH	(22,358)	(5,023)	14
CASH, BEGINNING OF PERIOD	22,372	5,259	-
CASH, END OF PERIOD	$ 14	$ 236	$ 14
SUPPLEMENTAL CASH FLOW INFORMATION:			
Interest paid	$ -	$ -	$ 1,653
Income taxes paid	$ -	$ -	$ -

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

DESIGN SOURCE, INC.
(A Development Stage Enterprise)
NOTES TO THE FINANCIAL STATEMENTS
As of and for the nine months ended December 31, 2008
(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, 2008. 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, 2008 are not necessarily indicative of the results that may be expected for the year ending March 31, 2009.

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. It is primarily engaged in offering textiles to the commercial designer market utilizing the internet.

DESIGN SOURCE, INC.
(A Development Stage Enterprise)
NOTES TO THE FINANCIAL STATEMENTS
As of and for the nine months ended December 31, 2008
(Unaudited)

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 $26,546 for the nine months ended December 31, 2008. In addition, the Company had an accumulated deficit of $595,097 as of December 31, 2008. 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 $55,000.

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.

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.

DESIGN SOURCE, INC.
(A Development Stage Enterprise)
NOTES TO THE FINANCIAL STATEMENTS
As of and for the nine months ended December 31, 2008
(Unaudited)

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 as defined by Statement of Financial Accounting Standards No. 107, "Disclosures about Fair Value of 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, 2008 and March 31, 2008.

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 pursuant to Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes" (hereinafter "SFAS No. 109"). 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 imposed by SFAS No. 109 to allow recognition of such an asset.

Basic and Diluted Earnings (Loss) Per Share
The Company utilizes Statement of Financial Accounting Standards No. 128, "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 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 Enterprise)
NOTES TO THE FINANCIAL STATEMENTS
As of and for the nine months ended December 31, 2008
(Unaudited)

Recently Issued Accounting Pronouncements

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 - 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 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 nine months ended December 31, 2008, the Company had not issued any additional shares of common stock.

DESIGN SOURCE, INC.
(A Development Stage Enterprise)
NOTES TO THE FINANCIAL STATEMENTS
As of and for the nine months ended December 31, 2008
(Unaudited)

NOTE 4 - INCOME TAXES

At December 31, 2008 and March 31, 2008, he Company had calculated deferred tax assets of approximately $240,000 and $229,000, 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, 2008 and March 31, 2008 were as follows:

	December 31, 2008	March 31, 2008
Net operating loss carryforward	$ 240,000	$ 229,000
Valuation allowance	(240,000)	(229,000)
Net deferred tax asset	$ -	$ -

At December 31, 2008 and March 31, 2008, the Company has net operating loss carryforwards of approximately $593,000 and $566,000, respectively, which begin to expire in the year 2027. The change in the allowance account from March 31, 2008 to December 31, 2008 was approximately $11,000.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION

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, 2008, we had no revenues and incurred net operating losses of $595,572. For the three and nine months ended December 31, 2008, we incurred net operating losses of $3,188 and $26,546, respectively, which consisted 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, 2008, was $14. 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, 2008, was $22,358. Net cash used in operating activities from inception through December 31, 2008, was $232,486. Net cash provided by financing activities from inception through December 31, 2008, was $232,500. We had 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

In February 1997, the Financial Accounting Standards Board ("FASB") issued Statement of Accounting Standards ("SFAS") No. 128, "Earnings Per Share", which specifies the computation, presentation and disclosure requirements for earnings (loss) per share for entities with publicly held common stock. SFAS No. 128 supersedes the provisions of APB No. 15, and requires the presentation of basic earnings (loss) per share and diluted earnings (loss) per share. The Company has adopted the provisions of SFAS No. 128 effective as of the date of inception (April 2, 2003).

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. In accordance with FASB 16 all adjustments are normal and recurring.

E. Income Taxes

Income taxes are provided in accordance with Statement of Financial Accounting Standards No. 109 (SFAS 109), Accounting for Income Taxes. A deferred tax asset or liability is recorded for all temporary differences between financial and tax reporting and net operating loss carryforwards. Deferred tax expense (benefit) results from the net change during the year of deferred tax assets and liabilities.

Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion of all of the deferred tax assets will be realized. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not Applicable.

ITEM 4T. CONTROLS AND PROCEDURES

Evaluation of Our Disclosure Controls and Internal 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, including our consolidated subsidiaries, 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.

Our internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements for external purposes of accounting principles generally accepted in the United States. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Therefore, even those systems determined to be effective can provide only reasonable assurance of achieving their control objectives. In evaluating the effectiveness of our internal control over financial reporting, our management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") in Internal Control – Integrated Framework.

Officers' Certifications

Appearing as exhibits to this quarterly report are "Certifications" of our Chief Executive Officer and Chief Financial Officer. The Certifications are required pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (the "Section 302 Certifications"). This section of the Quarterly Report contains information concerning the Controls Evaluation referred to in the Section 302 Certification. This information should be read in conjunction with the Section 302 Certifications for a more complete understanding of the topics presented.

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, 2008 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, 2008.

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

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 Principal 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 12, 2009

Design Source, Inc.

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