

MEDICAL DISCOVERIES INC

Form 10QSB

May 15, 2006

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**UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
Form 10-QSB**

(Mark One)

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

For the quarterly period ended March 31, 2006

TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE EXCHANGE ACT

For the transition period from _____ to _____

Commission file number 0-12627

MEDICAL DISCOVERIES, INC.

(Exact name of Small Business Issuer as specified in its charter)

Utah
(State or other jurisdiction of
incorporation or organization)

87-0407858
(I.R.S. Employer
Identification No.)

1388 S. Foothill Drive, #266, Salt Lake City, Utah 84108

(Address of principal executive offices)

(801) 582-9583

(Issuer's telephone number, including area code)

N/A

(Former name, former address and former fiscal year, if changed since last report)

Check whether the issuer (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 No

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

APPLICABLE ONLY TO CORPORATE ISSUERS:

State the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date: As of May 15, 2006, there were 107,922,148 shares of the issuer's Common Stock and 41,800 shares of the issuer's Series A Preferred Stock outstanding.

Transitional Small Business Disclosure Format (check one): Yes No

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**PART I
FINANCIAL INFORMATION**

ITEM 1. FINANCIAL STATEMENTS

The following financial statements are filed with this report:

Condensed Consolidated Balance Sheets as of March 31, 2006, (unaudited) and December 31, 2005 (audited)

Condensed Consolidated Statements of Operations for the three-month periods ended March 31, 2006 (unaudited) and March 31, 2005 (unaudited), and from inception of the development stage on November 20, 1991 through March 31, 2006 (unaudited)

Condensed Consolidated Statements of Cash Flows for the three-month periods ended March 31, 2006 (unaudited) and March 31, 2005 (unaudited), and from inception of the development stage on November 20, 1991 through March 31, 2006 (unaudited)

Notes to Unaudited Condensed Consolidated Financial Statements

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(A Development Stage Company)
Condensed Consolidated Balance Sheets
(Unaudited)

	March 31, 2006	December 31, 2005
ASSETS		
CURRENT ASSETS		
Cash	\$ 106,589	\$ 654,438
Total Current Assets	106,589	654,438
Note receivable	303,475	296,050
Property and equipment, net	75,621	80,635
TOTAL ASSETS	\$ 485,685	\$ 1,031,123
LIABILITIES AND STOCKHOLDERS DEFICIT		
CURRENT LIABILITIES		
Accounts payable	\$ 2,425,462	\$ 2,608,783
Accrued interest payable	245,208	237,836
Notes payable	56,000	56,000
Convertible notes payable	193,200	193,200
Research and development obligation	606,950	592,100
Financial instrument	3,979,373	2,859,596
Total Current Liabilities	7,506,193	6,547,515
TOTAL LIABILITIES	7,506,193	6,547,515
STOCKHOLDERS DEFICIT		
Preferred stock, Series A, convertible; no par value; 42,000 shares authorized; 41,800 and 42,000 shares issued and outstanding, respectively; (aggregate liquidation preference of \$4,180,000 and \$4,200,000, respectively)	514,612	523,334
Common stock, no par value; 250,000,000 shares authorized; 107,922,148 and 107,679,724 shares issued and outstanding, respectively	15,220,617	15,211,895

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Additional paid-in capital	1,056,020	988,670
Deficit accumulated prior to the development stage	(1,399,577)	(1,399,577)
Deficit accumulated during the development stage	(22,412,180)	(20,840,714)
Total Stockholders' Deficit	(7,020,508)	(5,516,392)
TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT	\$ 485,685	\$ 1,031,123

See notes to condensed consolidated financial statements

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Table of Contents**MEDICAL DISCOVERIES, INC. AND SUBSIDIARIES**

(A Development Stage Company)

Condensed Consolidated Statements of Operations

(Unaudited)

	For the Three Months Ended March 31,		From Inception of the Development Stage on November 20, 1991 Through March 31, 2006
	2006	2005	
REVENUES	\$	\$	\$ 157,044
COST OF GOODS SOLD			14,564
GROSS PROFIT			142,480
OPERATING EXPENSES			
General and administrative	345,520	251,996	17,400,517
Research and development	92,583	1,551,986	5,813,782
Inventory write-down			96,859
Impairment loss			9,709
License fees			1,001,500
Total Expenses	438,103	1,803,982	24,322,367
LOSS FROM OPERATIONS	(438,103)	(1,803,982)	(24,179,887)
OTHER INCOME (EXPENSES)			
Unrealized gain (loss) on financial instrument	(1,119,777)	(142,262)	1,180,414
Interest income	1,211	5,564	56,509
Interest expense	(7,372)	(15,898)	(1,163,073)
Foreign currency transaction gain (loss)	(7,425)	19,900	49,055
Gain on forgiveness of debt			1,431,889
Other income			905,112
Total Other Income (Expenses)	(1,133,363)	(132,696)	2,459,906

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NET LOSS	(1,571,466)	(1,936,678)	(21,719,981)
Preferred stock dividend from beneficial conversion feature			(692,199)
NET LOSS APPLICABLE TO COMMON SHAREHOLDERS	\$ (1,571,466)	\$ (1,936,678)	\$ (22,412,180)
BASIC AND DILUTED LOSS PER COMMON SHARE	\$ (0.01)	\$ (0.02)	
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING	107,895,212	106,506,793	

See notes to condensed consolidated financial statements

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(A Development Stage Company)

Condensed Consolidated Statements of Cash Flows

(Unaudited)

	For the Three Months Ended		From Inception of the Development Stage on November 20, 1991 Through March 31, 2006
	2006	2005	
CASH FLOWS FROM OPERATING ACTIVITIES			
Net Loss	\$ (1,571,466)	\$ (1,936,678)	\$ (21,719,981)
Adjustments to reconcile net loss to net cash used by operating activities:			
Foreign currency transaction (gain) loss	7,425	(19,900)	(49,055)
Gain on debt restructuring			(1,431,889)
Common stock issued for services		18,750	