

MEDICAL DISCOVERIES INC

Form 10QSB

May 17, 2004

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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, 2004

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

87-0407858

(State or other jurisdiction of incorporation or organization)

(I.R.S. Employer Identification No.)

738 Aspenwood Lane, Twin Falls, Idaho 83301

(Address of principal executive offices)

(208) 736-1799

(Issuer's telephone number, including area code)

N/A

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

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 12, 2004, there were 90,291,185 shares of the issuer's Common Stock outstanding.

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

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act): 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 Sheet as of March 31, 2004 (unaudited) and December 31, 2003

Condensed Consolidated Statements of Operations for the three-month periods ended March 31, 2004 (unaudited) and March 31, 2003 (unaudited) and cumulative amounts since inception through March 31, 2004 (unaudited)

Condensed Consolidated Statements of Cash Flows for the three-month periods ended March 31, 2004 (unaudited) and March 31, 2003 (unaudited) and cumulative amounts since inception through March 31, 2004 (unaudited)

Notes to Unaudited Financial Statements

EXHIBIT 31

EXHIBIT 32

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MEDICAL DISCOVERIES, INC. AND SUBSIDIARIES
(A DEVELOPMENT STAGE COMPANY)

CONDENSED CONSOLIDATED BALANCE SHEET
As of March 31, 2004 (Unaudited) and December 31, 2003

	March 31, 2004	December 31, 2003
Current assets		
Cash	\$ 608,310	\$ 424,216
Prepaid expenses		11,331
Current portion of deferred charges		12,077
Total current assets	608,310	447,624
Current liabilities		
Accounts payable	\$ 2,200,019	\$ 2,066,727
Accrued interest	521,030	524,294
Current portion of notes payable	664,217	789,217
Convertible notes payable	448,202	498,202
Total current liabilities	3,833,468	3,878,440
Stockholders' deficit		
Escrow receivable		(227,300)
Additional paid in capital	2,254,363	579,363
Common stock, no par value, authorized 100,000,000 shares; 91,014,085 and 76,456,095 shares issued and outstanding at March 31, 2004 and December 31, 2003	13,215,927	12,546,957
Accumulated deficit	(18,468,148)	(16,329,836)
Treasury stock, 2,356,200 shares at cost	(227,300)	
Total stockholders' deficit	(3,225,158)	(3,430,816)
	\$ 608,310	\$ 447,624

See notes to consolidated financial statements

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MEDICAL DISCOVERIES, INC. AND SUBSIDIARIES
(A DEVELOPMENT STAGE COMPANY)

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

For the Periods Ended March 31, 2004 and March 31, 2003, and Cumulative Amounts (Unaudited)

	For the Three Months Ended March 31,		Cumulative Amounts Since November 20, 1991 (Date of Inception)
	2004	2003	
Revenues	\$	\$	\$ 137,212
Cost of goods sold			10,526
Gross profit			126,686
Research and development expenses	38,643		2,660,807
Inventory writedown			96,859
Impairment loss			9,709
License			1,001,500
General and administrative expenses	2,047,693	147,201	13,834,466
Operating loss	(2,086,336)	(147,201)	(17,476,655)
Other income (expense)			
Interest income	1,700		25,106
Other income			880,484
Interest expense	(53,676)	(58,033)	(944,546)
Loss before income taxes and extraordinary item	(51,976)	(58,033)	(38,956)
Income taxes	(2,138,312)	(205,234)	(17,515,611)
Forgiveness of debt net of \$0 income taxes			1,235,536
Net loss available to shareholders	\$ (2,138,312)	\$ (205,234)	\$ (16,280,075)
Net loss per share			
Continuing operations	\$ (0.03)	\$ (0.00)	\$ (0.64)
Extraordinary item			0.05

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Net loss per share	\$ (0.03)	\$ (0.00)	\$ (0.59)
Weighted average shares outstanding	84,830,304	55,598,856	27,392,700

See notes to consolidated financial statements

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MEDICAL DISCOVERIES, INC. AND SUBSIDIARIES
(A DEVELOPMENT STAGE COMPANY)

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Periods Ended March 31, 2004 (Unaudited) & March 31, 2003 (Unaudited), and Cumulative Amounts

	For the Three Months Ended March 31,		Cumulative Amounts Since November 20, 1991 (Date of Inception)
	2004	2003	
Cash flows from operating activities			
Net loss			
Adjustments to reconcile net loss to net cash used by operating activities			
Common stock options issued for services			3,136,253
Common stock issued for services, expenses, and litigation	52,466		4,253,682
Stock compensation expense	1,675,000		1,675,000
Reduction of escrow receivable from research and development			272,700
Reduction of legal costs			(130,000)
Notes payable issued for litigation			385,000
Depreciation			100,271
Write-off of subscription receivables			112,500
Impairment loss on assets			9,709
Loss on disposal of equipment			30,364
Gain on debt restructuring			(1,235,536)
Write-off of receivables			193,965
Changes in assets and liabilities			
Prepaid expenses	11,331	(26,445)	(1)
Deferred charges	12,077	12,076	1
Accounts receivable			(7,529)
Inventory			
Other assets			
Accounts payable	133,292	64,634	2,044,110
Accrued expenses	(3,264)	42,082	542,511
	<hr/>	<hr/>	<hr/>
Net cash used by operating activities	(257,410)	(112,887)	(5,685,571)
Cash flows from investing activities			
Purchase of equipment			(132,184)
Payments received on note receivable			130,000
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Net cash used by investing activities			(2,184)

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Cash flows from financing activities			
Contributed equity			131,374
Issuance of common stock	441,504		4,586,163
Payments on notes payable		(25,000)	(231,287)
Proceeds from notes payable		225,000	1,336,613
Payments on convertible notes payable			(98,500)
Proceeds from convertible notes payable			571,702
	<u> </u>	<u> </u>	<u> </u>
Net cash provided by financing activities	441,504	200,000	6,296,065
	<u> </u>	<u> </u>	<u> </u>
Net increase in cash	184,094	87,113	608,310
Cash, beginning of period	424,216	14,555	
	<u> </u>	<u> </u>	<u> </u>
Cash, end of period	\$ 608,310	\$ 101,668	\$ 608,310
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Supplemental disclosure of non-cash activities			
Retirement of notes payable of common stock	\$175,000		

See notes to consolidated financial statements

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**MEDICAL DISCOVERIES, INC. AND SUBSIDIARIES
(A Development Stage Company)**

**NOTES TO UNAUDITED FINANCIAL STATEMENTS
March 31, 2004**

Note 1. Basis of Presentation.

Unaudited Interim Financial Statements

The accompanying unaudited financial statements have been prepared by the Company pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations. In the opinion of management, all adjustments and disclosures necessary to a fair presentation of these financial statements have been included. These financial statements should be read in conjunction with the financial statements and notes thereto included in the Company's 2003 Annual Report on Form 10-KSB for the year ended December 31, 2003, as filed with the Securities and Exchange Commission. Certain reclassifications and other corrections for rounding have been made in prior period financial statements to conform to the current period presentation. The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. All significant inter-company transactions and balances have been eliminated in consolidation.

Stock Based Compensation

The Company has two incentive stock option plans wherein 24,000,000 shares of the Company's common stock can be issued. The Company granted 700,000 fully vested stock options during the quarter ended March 31, 2004 with an exercise price of \$.05. The Company granted 500,000 fully vested stock options to an officer during the