MEDICAL DISCOVERIES INC
Form 10QSB/A
March 28, 2006

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

Form 10-QSB/A

(Mark One)

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

For the quarterly period ended March 31, 2005

o **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.)

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 þ No o

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

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, 2005, there were 107,101,947 shares of the issuer s Common Stock and 42,000 shares of the issuer s Series A Preferred Stock outstanding.

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

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Explanatory Note

The purpose of this amendment on Form 10-QSB/A to the Quarterly Report on Form 10-QSB of Medical Discoveries, Inc, for the three months ended March 31, 2005 is to restate our interim consolidated financial statements for the period ended March 31, 2005 and related disclosures as of and for the period ended March 31, 2005. Generally, no attempt has been made in this Form 10-QSB/A to modify or update other disclosures presented in the original report on Form 10-QSB except as required to reflect the effects of the restatements. The Form 10-QSB/A generally does not reflect events occurring after the filing of the events. Information not affected by the restatements is unchanged and reflects the disclosures made at the time of the original filing of the Form 10-QSB on May 16, 2005. Accordingly, this Form 10-QSB/A should be read in conjunction with our filings made with the Securities and Exchange Commission subsequent to the filing of the original Form 10-QSB, including any amendments to those filings. The following items have been amended as a result of the restatement.

Part I Item 1. Financial Statements

Part I Item 2. Management s Discussion and Analysis of Financial Condition and Result of Operations

Part II Item 6. Exhibits

The Purpose of the restatement is to give effect to EITF 00-19, Accounting for Derivative Financial Investments Indexed to and potentially settled in a Company s Own Stock , pursuant to which we have reclassified as liabilities our outstanding warrants.

For convenience and ease of reference, we are filing our quarterly report in its entirely with the applicable change.

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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, 2005, (unaudited) and December 31, 2004 (audited)

Condensed Consolidated Statements of Operations for the three-month periods ended March 31, 2005 (unaudited), March 31, 2004 (unaudited) and from inception of the development stage on November 20, 1991 through March 31, 2005 (unaudited)

Condensed Consolidated Statements of Cash Flows for the three-month periods ended March 31, 2005 (unaudited), March 31, 2004 (unaudited), and from inception of the development stage on November 20, 1991 through March 31, 2005 (unaudited)

Notes to Unaudited Consolidated Financial Statements

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MEDICAL DISCOVERIES, INC. AND SUBSIDIARIES
(A Development Stage Company)
Condensed Consolidated Balance Sheets
(Unaudited)

	March 31, 2005 (Restated)	December 31, 2004
ASSETS		
CURRENT ASSETS		
Cash	$ 3,158,525	$ 1,455,397
Deposits	51,100	51,100
Total Current Assets	3,209,625	1,506,497
TOTAL ASSETS	$ 3,209,625	$ 1,506,497
LIABILITIES AND STOCKHOLDERS DEFICIT		
CURRENT LIABILITIES		
Accounts payable	$ 2,363,550	$ 2,448,454
Accrued interest payable	431,160	415,262
Notes payable	336,717	336,717
Convertible notes payable	193,200	193,200
Research and development obligation	645,800	
Financial instrument	5,249,284	
Total Current Liabilities	9,219,711	3,393,633
TOTAL LIABILITIES	9,219,711	3,393,633
STOCKHOLDERS DEFICIT		
Preferred stock, Series A, convertible; no par value; 50,000 shares authorized; 42,000 and 12,000 shares issued and outstanding, respectively; (aggregate liquidation preference of $4,200,000 and $1,200,000, respectively)	523,334	523,334
Common stock, no par value; 250,000 shares authorized; 107,101,947 and 105,653,335 shares issued and outstanding, respectively	15,168,098	14,918,657
Additional paid-in capital	988,670	3,424,383
Deficit accumulated prior to the development stage	(1,399,577)	(1,399,577)
Deficit accumulated during the development stage	(21,290,611)	(19,353,933)

Total Stockholders Deficit	(6,010,086)	(1,887,136)
TOTAL LIABILITIES AND STOCKHOLDERS DEFICIT	$ 3,209,625	$ 1,506,497

See notes to condensed consolidated financial statements.

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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,
	2005 (Restated)	2004	2005 (Restated)
REVENUES	$	$	$ 157,044
COST OF GOODS SOLD			14,564
GROSS PROFIT			142,480
OPERATING EXPENSES			
General and administrative	251,996	2,047,693	15,428,966
Research and development	1,551,986	38,643	5,100,724
Inventory write-down			96,859
Impairment loss			9,709
License fees			1,001,500
Total Expenses	1,803,982	2,086,336	21,637,758
LOSS FROM OPERATIONS	(1,803,982)	(2,086,336)	(21,495,278)
OTHER INCOME (EXPENSES)			
Unrealized loss on financial instrument	(142,262)		(142,262)
Interest income	5,564	1,700	35,135
Interest expense	(15,898)	(53,676)	(1,133,335)
Foreign currency transaction gain	19,900		19,900
Gain on forgiveness of debt			1,235,536
Other income			881,892
Total Other Expenses	(132,696)	(51,976)	896,866

NET LOSS	(1,936,678)	(2,138,312)	(20,598,412)
Preferred stock dividend from beneficial conversion feature			(692,199)
NET LOSS APPLICABLE TO COMMON SHAREHOLDERS	$ (1,936,678)	$ (2,138,312)	$ (21,290,611)
BASIC AND DILUTED LOSS PER COMMON SHARE	$ (0.02)	$ (0.03)	
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING	106,506,793	84,830,304	

See notes to condensed consolidated financial statements.

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MEDICAL DISCOVERIES, INC. AND SUBSIDIARIES
(A Development Stage Company)
Condensed Consolidated Statements of Cash Flows
(Unaudited)

	For the Three Months Ended March 31,		From Inception of the Development Stage on November 20, 1991 Through March 31,
	2005 (Restated)	2004	2005 (Restated)
CASH FLOWS FROM OPERATING ACTIVITIES			
Net loss	$ (1,936,678)	$ (2,138,312)	$ (20,598,412)
Adjustments to reconcile net loss to net cash used by operating activities:			
Foreign currency transaction gain	(19,900)		(19,900)
Common stock issued for services, expenses, and litigation	18,750	1,727,466	4,286,467
Acquired research and development costs	665,700		665,700
Unrealized loss on financial instrument	142,262		142,262
Depreciation			100,271
Reduction of escrow receivable from research and development			272,700
Stock options and warrants granted for services			4,811,253
Reduction of legal costs			(130,000)
Write-off of subscriptions receivable			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 accounts receivable			193,965
Note payable issued for litigation			385,000
Changes in operating assets and liabilities:			
Increase in accounts receivable			(7,529)
Decrease in prepaid expenses		11,331	
Decrease in deferred charges		12,077	
Increase (decrease) in accounts payable	(84,904)	133,292	2,207,641
Increase (decrease) in accrued expenses	15,898	(3,264)	615,607
Net Cash Used by Operating Activities	(1,198,872)	(257,410)	(8,157,938)
CASH FLOWS FROM INVESTING ACTIVITIES			
Increase in deposits			(51,100)
Purchase of equipment			(132,184)

Payments received on note receivable			130,000
Net Cash Used by Investing Activities			(53,284)
CASH FLOWS FROM FINANCING ACTIVITIES			
Issuance of common stock, preferred stock and warrants for cash	2,902,000	441,504	9,929,845
Contributed equity			131,374
Proceeds from notes payable			1,336,613
Payments on notes payable			(501,287)
Proceeds from convertible notes payable			571,702
Payments on convertible notes payable			(98,500)
Net Cash Provided by Financing Activities	2,902,000	441,504	11,369,747
NET INCREASE IN CASH	1,703,128	184,094	3,158,525
CASH AT BEGINNING OF PERIOD	1,455,397	424,216	
CASH AT END OF PERIOD	$ 3,158,525	$ 608,310	$ 3,158,525

See notes to condensed consolidated financial statements.

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MEDICAL DISCOVERIES, INC. AND SUBSIDIARIES
(A Development Stage Company)
Condensed Consolidated Statements of Cash Flows (Continued)
(Unaudited)

	For the Three Months Ended March 31,	
	2005 (Restated)	2004
SUPPLIMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Initial valuation of financial instrument	$ 6,279,829	$
Retirement of notes payable with common stock	$	$ 175,000

See notes to condensed consolidated financial statements.

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MEDICAL DISCOVERIES, INC. AND SUBSIDIARIES
(A Development Stage Company)
Notes to the Unaudited Condensed Consolidated Financial Statements

Note 1 Basis of Presentation

Unaudited Interim Consolidated Financial Statements

The accompanying unaudited consolidated 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 2004 Annual Report on Form 10-KSB for the year ended December 31, 2004, 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.

Loss Per Common Share

Loss per share is computed by dividing net loss applicable to common shareholders by the weighted-average number of shares outstanding. Potential common shares from convertible preferred stock, convertible notes payable, warrants and stock options have not been included as they are anti-dilutive.

Stock Based Compensation

The Company accounts for its stock options under Accounting Principles Board (APB) Option No. 25 using the intrinsic value method. The Company has elected not to adopt the provisions of Statement of Financial Accounting Standards No. 123, Accounting for Stock-Based Compensation (FAS 123). In accordance with Financial Accounting Standards (SFAS) No. 148, Accounting for Stock-Based Compensation Transition and Disclosure, pro-forma net income, stock-based compensation expense, and earnings per share using the fair value method are stated as follows:

	Three months Ended March 31,	
	2005	**2004**
Net loss applicable to common stockholders, as reported	$ (1,936,678)	$ (2,138,812)
Add: stock-based employee compensation expense included in reported net loss		1,577,000
Deduct: Total stock based employee compensation expense determined under fair value based method for all awards		(1,916,768)
Pro forma net loss applicable to common shareholders	$ (1,936,678)	$ (2,478,080)
Basic and diluted loss per share, as reported	$ (0.02)	$ (0.03)
Basic and diluted loss per share, pro forma	$ (0.02)	$ (0.03)

Assumptions used to calculate the income statement impact of stock options granted as it the Company had adopted FAS 123 were as follows:

	2005	2004
Expected dividend yield	n/a	
Risk free interest rate	n/a	3.8%
Expected volatility	n/a	220%
Expected Life	n/a	7 years
Weighted average fair value per share	n/a	$ 0.10

Note 2 Restatement of Financial Statements

The Company s previously issued condensed consolidated financial statements as of and for the three months ended March 31, 2005 have been restated to record the accounting of warrants resulting from the issuance of the Series A Convertible Preferred Stock entered into in October 2004 and March 2005 (See Note 4). These warrants, and all other warrants previously issued by the Company, were measured at their fair value and are reflected as a liability on the financial statements. The excess of the fair value of the warrants over the net proceeds received is recognized as an unrealized loss on financial instrument. The reclassification of previously issued warrants to a liability was recognized as a decrease to equity. The Company also remeasured the fair value of the warrants as of March 31, 2005 with the difference being recorded on the income statement as a change in financial instrument. As a result of this restatement, the Company recorded $5,249,284 of additional current liability related to the fair value of the warrants with a reduction of $5,107,022 in equity along with an additional expense of $142,262 recorded as an unrealized loss on financial instrument as of and for the three months ended March 31, 2005.

The following table summarizes the effect of the restatement and reclassification adjustments on the financial statements as of and for the three months ended March 31, 2005:

	As Previously Stated	Effect of Restatement	As Restated
For the Three Months Ended March 31, 2005			
Operating expenses	$ 1,803,982	$	$ 1,803,982
Unrealized loss on financial instrument		(142,262)	(142,262)
Net loss	(1,794,416)	(142,262)	(1,936,678)
Net loss applicable to common shareholders	(3,058,824)	1,122,146	(1,936,678)
Preferred stock dividend from beneficial conversion feature	(1,264,408)	1,264,408	
Basic and diluted loss per common share	(0.03)	0.01	(0.02)

	As Previously Stated	Effect of Restatement	As Restated
From Inception of the Development Stage on November 20, 1991 through March 31, 2005			
Revenues	$ 157,044	$	$ 157,044
Cost of goods sold	14,564		14,564
Operating expenses	21,637,758		21,637,758
Unrealized loss on financial instrument		(142,262)	(142,262)
Net loss	(20,456,150)	(142,262)	(20,598,412)
Preferred stock dividend from beneficial conversion feature	(1,956,608)	1,264,409	(692,199)
Net loss applicable to common shareholders	(22,412,758)	1,122,147	(21,290,611)

	March 31, 2005		
	As Previously Stated	Effect of Restatement	As Restated
Total current liabilities	3,970,427	5,249,284	9,219,711
Total liabilities	3,970,427	5,249,284	9,219,711
Preferred stock	1,570,109	(1,046,775)	523,334
Common stock	15,179,407	(11,309)	15,168,098
Additional paid-in capital	6,302,017	(5,313,347)	988,670
Deficit accumulated during the development stage	(22,412,758)	1,122,147	(21,290,611)
Total stockholders deficit	(760,802)	(5,249,284)	(6,010,086)

Note 3 Going Concern Considerations

The Company s recurring losses from development-stage activities in current and prior years raise substantial doubt about the Company s ability to continue as a going concern. The financial statements do not include any adjustments to reflect the possible effects on the recoverability and classification of assets or amounts and classifications of liabilities that may result from the possible inability of the Company to continue as a going concern. The Company is attempting to raise additional capital to fund research and development costs until it is able to consistently generate revenues and sustain profitable operations. However, there can be no assurance that these plans will be successful.

Note 4 Issuance of Common Stock, Preferred Stock, Warrants and Financial Instrument

Common Stock

During the three months ended March 31, 2005, the Company issued 1,448,612 shares of restricted common stock, 104,167 of which were issued for services valued at $18,750 and 1,344,445 of which were issued for cash totaling $242,000. In connection with the sales for cash, the Company also issued warrants to purchase 1,344,445 shares of restricted common stock at $0.18 per share, expiring 3 years from the date of issuance.

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Preferred Stock and Warrants

During the three months ended March 31, 2005, the Company issued 30,000 shares of Series A Convertible Preferred Stock and warrants to purchase 22,877,478 shares of common stock for a total offering price of $3.0 million. The Company incurred $340,000 of offering costs and issued to the placement agent warrants to purchase 1,220,132 shares of common stock exercisable at $0.1967 per share which are exercisable for a period of three years.

Each share of Preferred Stock entitles the holder to convert the share of Preferred Stock into the number of shares of common stock resulting from multiplying $100 by the conversion price. The conversion price is 75% of the average of the three lowest intra-day trading prices for the Company s common stock during the 10 trading days immediately preceding the conversion date. The conversion price may not exceed $0.1967. The warrants are subject to equitable adjustment in connection with a stock split, stock dividend or similar transaction. The warrants entitle the holder to purchase up to 22,877,478 shares of common stock of the Company at $0.1967 per share. The warrants expire three years after the date of issuance.

The Series A Convertible Preferred Stock has no voting rights. In the event of liquidation, the holders are entitled to a liquidating distribution of $100 per share. The Company also entered into a Registration Rights Agreement with the investors requiring the Company to use its best efforts to timely file a registration statement with the Securities and Exchange Commission registering the shares of common stock issuable upon conversion of the Preferred Stock and exercise of the warrants. There are no significant liquidation damages in the event the Company is unable to file its registration statement.

The conversion feature of the Series A Convertible Preferred Stock has more of the attributes of an equity instrument than a liability instrument, and thus is not considered a derivative. However, the Company is unable to guarantee that there will be enough shares of stock to settle other freestanding instruments. Accordingly, the warrants attached to the convertible preferred stock were measured at their fair value and classified as liability in the financial statements. The fair value of the warrants was $3,844,116 on the date of issuance computed using the Black Scholes model with the following assumptions: volatility of 170%, risk-free interest rate of 3.9%, and an expected life of three years. The fair value of the warrants exceeded the proceeds received by $1,184,116, which was recorded as an expense on the statement of operations. Due to the fact that the value of the warrants exceeded the proceeds received, no value was assigned to the preferred stock.

Financial Instrument

As noted above, all warrants and options outstanding on March 11, 2005 (with the exception of stock options issued to employees) were measured at their fair value and reclassified as a liability in the financial statements. There were 16,215,100 warrants issued prior to March 11, 2005 with a fair value of $2,435,713. The value of the warrants was computed using the Black Scholes model with the following assumptions: volatility of 170%, risk-free interest rate of 3.9%, and an expected life of three years. As a result of the reclassification, additional paid-in capital was decreased by the fair value of the liability.

Subsequent to March 11, 2005, 83,333 warrants were issued as part of a common stock offering of 83,333 shares. The warrants had a fair value of $11,309 and are classified as a liability on the financial statements. The value of the warrants was computed using the Black Scholes model with the following assumptions: volatility of 165%, risk-free interest rate of 4.1%, and an expected life of three years. The proceeds received from this issuance exceeded the value of the warrants by $3,691, which was attributed to the common stock.

The Company adjusted to market value the outstanding warrants as of March 31, 2005. The fair value of the financial instrument was $5,249,284. The Company used the Black-Scholes model in calculating fair value with the following

assumptions: volatility of 166%, risk free interest rate of 3.9% and an expected life of three years. The changes in fair market value have been recorded as adjustments in the line Unrealized loss on financial instrument in the financial statements.

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Note 5 Other Significant Events

SaveCream Asset Purchase

On March 16, 2005, the Company completed the purchase of the intellectual property assets (the Assets) of Savetherapeutics AG, a German corporation in liquidation in Hamburg, Germany (SaveT). The Assets consist primarily of patents, patent applications, pre-clinical study data and clinical trial data concerning SaveCream, SaveT s developmental-stage topical aromatase inhibitor treatment for breast cancer. SaveCream never generated revenues for SaveT. The Company s analysis as to whether the intellectual property purchased constituted a business resulted in the conclusion that no such business had been acquired.

The purchase price of the Assets was negotiated to be 2,350,000 (approximately $3.1 million under current exchange rates), payable as follows: 500,000 at closing, 500,000 (approximately $645,800 using the March 31, 2005 exchange rates) upon conclusion of certain pending transfers of patent and patent application rights from SaveT s inventors to the Company, and the remaining 1,350,000 (approximately $1.74 million at current exchange rates) upon successful commercialization of the Assets. The Company s source of funds for the acquisition was a $3 million investment in the Company s Series A Preferred Stock by an unrelated third party, as described in Note 3.

SaveT inventors have yet to assign the patent and application rights to the Company, management has deemed the assignment of the rights to be reasonably likely because the inventors are contractually bound to execute and deliver the assignments; therefore, the Company has recorded the second 500,000 payment as a current liability in these financial statements. At present it is undeterminable whether the intellectual property will ever be commercialized; therefore, the final 1,350,000 under this acquisition has

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not been accrued as a liability as of March 31, 2005. The Company determined the intellectual property purchased should be expensed as research and development costs

Formation of MDI Oncology, Inc.

On March 22, 2005, the Company formed MDI Oncology, Inc., a Delaware Corporation, as a wholly-owned subsidiary for the purpose of acquiring and operating the assets and associated business ventures associated with the SaveCream purchase.

Note 6 Subsequent Event

In April, 2005, the Company negotiated a settlement regarding notes payable totaling $336,717 and accrued interest of $269,364, by payment of $300,000 in cash. The Company will recognize a gain on settlement of debt totaling $306,081.

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ITEM 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

The purpose of this section is to discuss and analyze our consolidated financial condition, liquidity and capital resources, and results of operations. This analysis should be read in conjunction with the consolidated financial statements and notes thereto at pages 2 through 10 and Management s Discussion and Analysis of Financial Condition and Results of Operations contained in our Annual Report on Form 10-KSB for the year ended December 31, 2004 (the 2004 10-KSB).

This section contains certain forward-looking statements that involve risks and uncertainties, including statements regarding our plans, objectives, goals, strategies and financial performance. Our actual results could differ materially from the results anticipated in these forward-looking statements as a result of factors set forth under Cautionary Statement for Forward-Looking Information and Factors Affecting Future Results below and elsewhere in this report.

Overview

We are a developmental-stage bio-pharmaceutical company engaged in the research, validation, development and ultimate commercialization of two drugs: MDI-P and SaveCream. MDI-P is an anti-infective drug that we believe will be a safe and effective treatment for bacterial infections, viral infections and fungal infections. SaveCream is a breast cancer medication that is applied topically to reduce breast cancer tumors. Both of these drugs are still in development and have not been approved by the U.S. Food and Drug Administration (FDA).

Our initial target indications for MDI-P are Cystic Fibrosis and HIV. We have filed an Investigatory New Drug application (IND) with the FDA seeking permission to begin Phase I human clinical trials of MDI-P as a treatment for Cystic Fibrosis. The FDA has responded to our IND and we are hopeful that we can satisfactorily answer the FDA s questions and satisfy the FDA s follow-up requests for further animal testing, resulting in the FDA approving the application. If the FDA approves that IND, we will begin human trials at St. Luke s Regional Medical Center in Boise, Idaho using a protocol designed by Dr. Henry Thompson. If our Phase I IND for Cystic Fibrosis is successful, we intend to file an IND for Phase I testing of MDI-P as a treatment for HIV at Harvard School of Medicine using a protocol designed by Dr. Bruce Dezube. We also expect to add additional indications for the use of MDI-P in the future as we further our pre-clinical development.

We recently purchased the intellectual property for SaveCream from the liquidation estate of a defunct German biotechnology company. In a European Union study of SaveCream used by over 100 women diagnosed with breast cancer, a significant number of those women experienced a significant tumor reduction. This study, while preliminary, indicates that SaveCream may be substantially more effective and faster acting than similar drugs already on the market. We are in the process of developing a global commercialization strategy for SaveCream.

Recent Events

SaveCream Asset Purchase. On March 16, 2005 we announced the purchase of intellectual property assets from the liquidation estate of Savetherapeutics AG, a defunct German biotechnology company headquartered in Hamburg. The purchase price was 2,350,000 (approximately $3.035 million, using the March 31, 2005 exchange rate). Before it ceased business in 2004, Savetherapeutics (SaveT) had been developing SaveCream, a topical steroidal form of aromatase inhibitor (AI) for breast cancer that never generated revenues for SaveT.

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This promising cancer therapeutic product has been tested in the European Union under a unique German regulatory scheme that allows patients with limited treatment options to receive novel treatments. In the study, over 100 women diagnosed with breast cancer received special permission to be treated with SaveCream. A significant number of those women experienced significant tumor reduction. This study indicates substantially improved efficacy in reduction of breast tumors, in shorter time frames than the three approved AIs currently on the market. We are in the process of developing a global commercialization strategy for SaveCream.

M.A.G. Capital, LLC (formerly Mercator Advisory Group, LLC), through its designated funds, Mercator Momentum Fund, L.P., and Mercator Momentum Fund III, L.P., provided us with $3 million for the purchase.

We expect to perform additional CMC (chemistry manufacturing and control) work and expand the clinical trials over 2005, and believe this will open the door to commercialization opportunities for SaveCream by late 2006, which may be quicker than we can commercialize MDI-P. This purchase also allows us to diversify our product base.

We analyzed whether the intellectual property purchased was a business within the contemplation of Regulation S-X, and concluded that no such business had been acquired.

Cystic Fibrosis IND. We are continuing to prosecute our IND for Cystic Fibrosis with the FDA. We have agreed with the FDA on a large animal model protocol to establish pharmacological safety with relation to cardio and central nervous system toxicity for this IND. We expect to begin that phase of testing in the very near future and to start Phase I clinical trials on Cystic Fibrosis in Q4 of 2005.

Results of Operations

Revenues and Gross Profit We did not book any revenue for the three-month periods ended March 31, 2005 or March 31, 2004. As we continue to pursue pre-clinical and clinical testing of our pharmaceuticals, we do not anticipate booking significant revenues in the near future.

Operating Expenses and Operating Loss We incurred $1,551,986 in research and development expenses for the quarter ended March 31, 2005, $1,345,000 of which related to our acquiring the patents and patent rights relating to SaveCream. We incurred $38,643 in research and development expenses for the same period of 2004. Our general and administrative expenses were $251,996 during the first quarter of 2005, as compared to $2,047,693 during the quarter ended March 31, 2004. As a result of the foregoing, we sustained an operating loss of $1,803,982 for the quarter ended March 31, 2005, as compared with an operating loss of $2,086,336 for the same period of 2004.

Other Income/Expense and Net Loss - We booked $5,564 in interest income and incurred interest expenses of $15,898 for the quarter ended March 31, 2005, as compared with interest income of $1,700 and $53,676 in interest expenses for the same period of 2004. The decrease in interest expense is a result of our successful efforts to convert high-interest debt to equity. In addition, we realized a gain of $19,900 on the foreign currency adjustment relating to our obligations in the SaveCream asset purchase. We also recorded $142,262 in unrealized loss on financial instrument to record the accounting of warrants resulting from the issuance of the Series A Convertible Preferred Stock entered into in October 2004 and March 2005. There was no such loss recorded during the first quarter of 2004. In sum, our net loss applicable to common shareholders for the first quarter of 2005 was $1,936,678 or a loss of $0.02 per fully diluted share. For the quarter ended March 31, 2004 we incurred a net loss applicable to common shareholders of $2,138,312, making a loss of $0.03 per fully diluted share.

Future Expectations - We expect to operate at a loss for several more years while we continue to research, gain regulatory approval of, and commercialize our technologies. We will spend more in the remainder of the 2005 fiscal year in research and development expenses than we did over the prior year as we continue

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to implement our commercialization strategy. Similarly, we expect our general and administrative expenses to continue to increase for the remainder of 2005 as we continue to expand the scope of our operations. As a result, we expect to sustain a greater net loss in 2005 than we have in recent years.

Liquidity and Capital Resources

As of March 31, 2005, we had $3,158,525 in cash and had a working capital deficit of $6,010,086. Since our inception, we have financed our operations primarily through private sales of equity and the issuance of convertible and non-convertible notes. We continue to require significant supplementary funding to continue to develop, research, and seek regulatory approval of our technologies. We do not currently generate any cash from operations and have no credit facilities in place or available. Currently, we are funding operations through private issuances of equity.

During the three months ended March 31, 2005, we issued 30,000 shares of our Series A Preferred Stock to an unrelated third-party in exchange for $3 million in cash, less offering costs of $340,000. We intend to use this cash for additional research and development, including making the second installment on our purchase of the SaveCream assets.

We are seeking to raise substantial additional funds in private stock offerings in order to meet our near-term and mid-term funding requirements. While we are optimistic that we can raise such funds, we cannot provide positive assurances that we will be successful in our efforts. Given that we are still in an early development stage and do not have revenues from operations, raising equity financing can, at times, be difficult. In addition, any additional equity financing will have a substantial dilutive effect to our current shareholders.

We believe we have sufficient capital on hand to complete Phase I clinical trials for Cystic Fibrosis once the FDA approves our IND. We also believe we have sufficient capital to file our IND for HIV.

Once an IND application for HIV is submitted, and assuming it is approved, we will need additional capital to initiate Phase I clinical trials. We estimate the cost to complete Phase I and Phase II clinical trials to be several million dollars per indication and the cost to complete Phase III testing and obtain approval of an NDA to be in the tens of millions of dollars per indication.

While our ability to obtain financing may improve in the event our IND application is approved, we cannot give assurances that we will have access to the significant capital required to take a drug through regulatory approvals and to market. We may seek a partner in the global pharmaceutical industry to help us co-develop, license, or even purchase some or all of our technologies.

Off-Balance Sheet Arrangements

We have no off-balance sheet arrangements as defined in Item 303(c) of Regulation S-B.

Cautionary Statement for Forward Looking Information

Certain information set forth in this report contains forward-looking statements within the meaning of federal securities laws. Forward looking statements include statements concerning our plans, objectives, goals, strategies, future events, future revenues or performance, capital expenditures, and financing needs and other information that is not historical information. When used in this report, the words estimates, expects, anticipates, forecasts, plans, believes and variations of such words or similar expressions are intended to identify forward-looking statements. Additional forward-looking statements may be made by us from time to time. All such subsequent forward-looking statements, whether written or oral and whether made by us or on our behalf, are also expressly qualified by these

cautionary statements.

Our forward-looking statements are based upon our current expectations and various assumptions. Our expectations, beliefs and projections are expressed in good faith and are believed by us to have a reasonable

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basis, including without limitation, our examination of historical operating trends, data contained in our records and other data available from third parties, but there can be no assurance that our expectations, beliefs and projections will result or be achieved or accomplished. Our forward-looking statements apply only as of the date made. We undertake no obligation to publicly update or revise forward-looking statements which may be made to reflect events or circumstances after the date made or to reflect the occurrence of unanticipated events.

There are a number of risks and uncertainties that could cause actual results to differ materially from those set forth in, contemplated by or underlying the forward-looking statements contained in this report. Those risks and uncertainties include, but are not limited to, our lack of significant operating revenues and lack of profit to date, our need for substantial and immediate additional capital, the fact that we may dilute existing shareholders through additional stock issuances, the extensive governmental regulation to which we are subject, the fact that our technologies remain unproven, the intense competition we face from other companies and other products, and our reliance upon potentially inadequate intellectual property. Those risks and certain other uncertainties are discussed in more detail in the 2004 10-KSB. There may also be other factors, including those discussed elsewhere in this report, that may cause our actual results to differ from the forward-looking statements. Any forward-looking statements made by us or on our behalf should be considered in light of these factors.

ITEM 3. CONTROLS AND PROCEDURES

(a) Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of our disclosure controls and procedures, as such term is defined under Rule 13a-14(c) promulgated under the Securities Exchange Act of 1934, as amended (the Exchange Act), as of March 27, 2006. Based on this evaluation, our principal executive officer and principal financial officer concluded that our disclosure controls and procedures were effective as of March 27, 2006.

(b) There have been no significant changes (including corrective actions with regard to significant deficiencies or material weaknesses) in our internal controls or in other factors that could significantly affect these controls subsequent to the date of the evaluation referenced in paragraph (a) above.

PART II
OTHER INFORMATION

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

During the three months ended March 31, 2005, we issued 1,344,445 restricted shares of common stock to unrelated private investors for a cash inflow of $242,000, in accordance with Rule 144 of the Securities Exchange Act of 1934. In addition, we issued 30,000 shares of our Series A Preferred Stock in March 2005, in exchange for $3,000,000 in cash. Neither of these issuances involved an underwriter. We believe these issuances were exempt from registration pursuant to Section 4(2) of the Securities Act of 1933 because the sales did not involve a public offering. The investment proceeds were utilized toward the purchase of the SaveCream assets, and will help complete our Phase I clinical trials in Cystic Fibrosis which we plan to commence in the first quarter of 2005 once our IND is accepted with the FDA. In addition, we intend to utilize a significant portion of these proceeds in further research, development, and commercialization of the patents and patent rights acquired in the SaveCream purchase.

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ITEM 6. EXHIBITS

The following documents are furnished as exhibits to this Form 10-QSB/A. Exhibits marked with an asterisk are filed herewith. The remainder of the exhibits previously have been filed with the Commission and are incorporated herein by reference.

Number	Exhibit
2 .1	Sale and Purchase Agreement between Attorney Hinnerk-Joachim Müller as liquidator of Savetherapeutics AG i.L. and Medical Discoveries, Inc. regarding the purchase of the essential assets of Savetherapeutics AG i.L. (filed as Exhibit 2.1 to the Company s Annual Report on Form 10-KSB for the fiscal year ended December 31, 2004, and incorporated herein by reference).
3 .1	Amended and Restated Articles of Incorporation of the Company (filed as Exhibit 3.1 to the Company s Annual Report on Form 10-KSB for the fiscal year ended December 31, 1994, and incorporated herein by reference).
3 .2	Amended Bylaws of the Company (filed as Exhibit 3.2 to the Company s Annual Report on Form 10-KSB for the fiscal year ended December 31, 1994, and incorporated herein by reference).
4 .1	Registration Rights Agreement dated October 18, 2004 among Monarch Pointe Fund, Ltd., Mercator Advisory Group, LLC and Medical Discoveries, Inc. (filed as Exhibit 4.1 to the Company s Annual Report on Form 10-KSB for the fiscal year ended December 31, 2004, and incorporated herein by reference).
4 .2	Registration Rights Agreement dated December 3, 2004 among Mercator Momentum Fund, LP, Mercator Momentum Fund III, LP, Mercator Advisory Group, LLC and Medical Discoveries, Inc. (filed as Exhibit 4.2 to the Company s Annual Report on Form 10-KSB for the fiscal year ended December 31, 2004, and incorporated herein by reference).
10 .1	2002 Stock Incentive Plan adopted by the Board of Directors as of July 11, 2002 (filed as Exhibit 10.5 to the Company s Quarterly Report on Form 10-QSB for the quarter ended June 30, 2002, and incorporated herein by reference).
21	Subsidiaries.
31.1	Rule 13a-14(a) Certification, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.*
31.2	Rule 13a-14(a) Certification, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.*
32.1	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.*
32.2	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.*

* Filed herewith.

Previously filed.

SIGNATURES

In accordance with the requirements of the Exchange Act, the registrant caused this amended report to be signed on its behalf by the undersigned, thereunto duly authorized.

MEDICAL DISCOVERIES, INC.

/s/ Judy M. Robinett

Judy M. Robinett
President and Chief Executive Officer

Date: March 28, 2006

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