

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

FORM 10-QSB

(Mark One)

☒ Quarterly report under Section 13 or 15(d) of the Securities
Exchange Act of 1934

For the quarterly period ended March 31, 1997

☐ Transition report under Section 13 or 15(d) of the Securities
Exchange Act of 1934

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 (I.R.S. Employer Identification No.)
of incorporation or organization)

2040 East Murray-Holladay Road, Suite 116, Salt Lake City, UT 84117

(Address of principal executive offices)

(801) 273-7388

(Issuer's Telephone Number)

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.

X Yes No
=== ===

APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY
PROCEEDINGS DURING THE PRECEDING FIVE YEARS

Check whether the registrant has filed all documents and reports
required to be filed by Sections 12, 13, or 15(d) of the Exchange Act
after the distribution of securities under a plan confirmed by a court.

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: 21,796,259

as of April 30, 1997

Transitional Small Business Disclosure Format (check one)

Yes X No
=== ===

PART I
FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

The following financial statements are filed with this report:

Balance Sheets as of March 31, 1997 (unaudited) and March 31, 1996

(unaudited)

Statements of Operations for the Three-Month Periods ended
March 31, 1997 (unaudited) and March 31, 1996 (unaudited)
and since inception through March 31, 1997 (unaudited)

Statements of Cash Flows for the Three-Month Periods ended
March 31, 1997 (unaudited) and March 31, 1996 (unaudited)

Notes to Unaudited Financial Statements
MEDICAL DISCOVERIES, INC.
(A DEVELOPMENT STAGE COMPANY)

BALANCE SHEET
AS OF MARCH 31, 1997 AND MARCH 31, 1996
(UNAUDITED)

| | March 31, 1997 | March 31, 1996 |
|-----------------------------------------------------------------------------------------------------------------------------------|----------------|----------------|
| | ----- | ----- |
| CURRENT ASSETS | | |
| Cash | \$ 23,911 | \$ 329,742 |
| Accounts receivable | 47,896 | 43,604 |
| Prepaid expenses | 6,736 | 0 |
| | ----- | ----- |
| Total Current Assets | 78,543 | 373,346 |
| PROPERTY AND EQUIPMENT | | |
| Equipment | 75,217 | 54,262 |
| Less: Accumulated depreciation | (19,913) | (6,023) |
| | ----- | ----- |
| Net Property and Equipment | 55,304 | 48,239 |
| OTHER ASSETS | | |
| Deposits | 1,170 | 1,170 |
| Note receivable | 18,186 | 66,083 |
| | ----- | ----- |
| Total Other Assets | 19,356 | 67,253 |
| Total Assets | \$ 153,203 | \$ 488,838 |
| | ===== | ===== |
| CURRENT LIABILITIES | | |
| Accounts payable | \$ 692,496 | \$ 531,133 |
| Accrued interest | 17,288 | 16,373 |
| Short term notes payable | 61,000 | 0 |
| Current maturities of | | |
| notes payable | 2,859 | 2,520 |
| | ----- | ----- |
| Total Current Liabilities | 773,643 | 550,006 |
| LONG TERM LIABILITIES | | |
| Notes payable | 317,969 | 320,590 |
| | ----- | ----- |
| Total Long Term Liabilities | 317,969 | 320,590 |
| | ----- | ----- |
| TOTAL LIABILITIES | 1,091,612 | 870,596 |
| | ----- | ----- |
| STOCKHOLDERS' EQUITY | | |
| Common Stock, no par value, authorized 100,000,000 shares; 21,796,259 shares issued and outstanding at March 31, 1997 | 6,166,867 | 5,638,085 |
| Retained deficit | (6,967,776) | (5,907,343) |
| Subscription receivables | (137,500) | 112,500 |
| | ----- | ----- |
| Total Stockholders' Equity | (938,409) | (381,618) |
| | ----- | ----- |
| TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY | \$ 153,203 | \$ 488,838 |
| | ===== | ===== |

MEDICAL DISCOVERIES, INC.
(A DEVELOPMENT STAGE COMPANY)

STATEMENT OF OPERATIONS
FOR THE PERIODS ENDED MARCH 31, 1997 AND MARCH 31, 1996
(UNAUDITED)

| | For the three months ended March 31, | Cumulative Amounts since November 20, 1991 (date of inception) |
|---------------|-----------------------------------------|----------------------------------------------------------------------------|
| | ----- | ----- |
| | 1997 | 1996 |
| | ----- | ----- |
| REVENUE | | |
| Clinical fees | \$ 0 | \$ 0 |
| | ----- | ----- |
| | | \$ 108,200 |
| | | ----- |

| | | | |
|----------------------------------------------------|--------------|------------|----------------|
| Total Revenue | 0 | 0 | 108,200 |
| EXPENSES | | | |
| License | 0 | 0 | 1,001,500 |
| Research and development | 301 | 60,730 | 2,707,357 |
| General and administrative | 161,684 | 173,729 | 4,131,470 |
| | ----- | ----- | ----- |
| Total Expenses | 161,985 | 237,249 | 6,840,327 |
| | ----- | ----- | ----- |
| NET LOSS FROM OPERATION | (161,985) | (237,249) | (6,732,127) |
| | ----- | ----- | ----- |
| OTHER INCOME / (EXPENSE) | (11,527) | (5,781) | (71,608) |
| | ----- | ----- | ----- |
| LOSS BEFORE INCOME TAXES AND EXTRAORDINARY ITEM | (173,512) | (243,030) | (6,803,735) |
| | ----- | ----- | ----- |
| INCOME TAXES | 0 | 0 | 0 |
| | ----- | ----- | ----- |
| LOSS BEFORE EXTRAORDINARY ITEM | (173,512) | (243,030) | (5,743,301) |
| | ----- | ----- | ----- |
| FORGIVENESS OF DEBT | 0 | 673,486 | 1,235,536 |
| | ----- | ----- | ----- |
| NET INCOME | \$ (173,512) | \$ 430,456 | \$ (5,568,199) |
| | ===== | ===== | ===== |
| INCOME / (LOSS) PER SHARE | | | |
| Loss from continuing operations | \$ (0.01) | \$ (0.01) | \$ (0.42) |
| Gain from debt forgiveness | 0.00 | 0.03 | 0.08 |
| | ----- | ----- | ----- |
| Income / (loss) per share | \$ (0.01) | \$ 0.02 | \$ (0.35) |
| | ===== | ===== | ===== |
| WEIGHTED AVERAGE NUMBER OF SHARES | 21,675,645 | 20,388,823 | 16,050,971 |
| | ===== | ===== | ===== |

MEDICAL DISCOVERIES, INC.
(A DEVELOPMENT STAGE COMPANY)
STATEMENT OF CASH FLOWS

FOR THE PERIODS ENDED MARCH 31, 1997 AND MARCH 31, 1996
(UNAUDITED)

| | For the three months ended March 31, ----- 1997 1996 ----- | | Cumulative Amounts since November 20, 1991 (date of inception) ----- |
|-------------------------------------------------|---------------------------------------------------------------------------------------------|------------|-------------------------------------------------------------------------------------|
| OPERATING ACTIVITIES | | | |
| Net income (loss) for the period | \$ (173,512) | \$ 430,456 | \$ (5,568,199) |
| Add non-cash items | | | |
| Common stock issued for services and license | 0 | 40,000 | 3,215,611 |
| Reduction of legal costs | 0 | 0 | (130,000) |
| Depreciation | 3,372 | 2,790 | 21,373 |
| Loss on disposal of equipment | 0 | 0 | 6,330 |
| Gain on debt restructuring | 0 | (673,486) | (1,235,536) |
| Write-off receivables | 0 | 0 | 193,965 |
| Decrease (increase) in: | | | |
| Receivables | 11,289 | 10,275 | 3,760 |
| Prepaid Expenses | 4,044 | 65,860 | (6,736) |
| Other assets | 0 | 0 | (1,170) |
| Increase (decrease) in: | | | |
| Accounts payable | (22,329) | (5,521) | 536,586 |
| Accrued expenses | (8,751) | 23,326 | 38,769 |
| Short term notes payable | 61,000 | 0 | 61,000 |
| | ----- | ----- | ----- |
| Net Cash from Operations | (79,869) | (106,300) | (2,864,247) |
| INVESTING ACTIVITIES | | | |
| Purchases of equipment | (986) | (1,791) | \$ (74,846) |
| Payments received on note receivable | 0 | 0 | 52,629 |
| | ----- | ----- | ----- |
| Net Cash from Investing Activities | (986) | (1,791) | (22,217) |
| FINANCING ACTIVITIES | | | |
| Payment of notes payable | (675) | 0 | (4,033) |
| Increase in notes payable | 0 | 0 | 316,700 |
| Equity contributed | 0 | 0 | 131,374 |

| | | | |
|-------------------------------------------|-----------|------------|-----------|
| Proceeds from issuance of common stock | 80,134 | 400,000 | 2,466,334 |
| | ----- | ----- | ----- |
| Net Cash from Financing Activities | 79,459 | 400,000 | 2,910,375 |
| | ----- | ----- | ----- |
| NET INCREASE / (DECREASE) IN CASH | (1,396) | 291,909 | 23,911 |
| CASH, BEGINNING PERIOD | 25,307 | 37,833 | 0 |
| | ----- | ----- | ----- |
| CASH ENDING PERIOD | \$ 23,911 | \$ 329,742 | \$ 23,911 |
| | ===== | ===== | ===== |

MEDICAL DISCOVERIES, INC.

NOTES TO FINANCIAL STATEMENTS
March 31, 1997

NOTES TO UNAUDITED FINANCIAL STATEMENTS

The unaudited financial statements include the accounts of Medical Discoveries, Inc. and include all adjustments which are, in the opinion of management, necessary to present fairly the financial position as of March 31, 1997 and the results of operations and changes in financial position for the three-month period ended March 31, 1997. The results of operations for the three months ended March 31, 1997 are not necessarily indicative of the results to be expected for the entire year.

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

MANAGEMENT AND DIRECTOR CHANGES. MDI announced the appointment of Lee F. Kulas as President, Chief Executive Officer and Director. Mr. Kulas has over 20 years' of broad-based experience in management, marketing, sales and international business development, and has served as chief executive of two medical device start-up companies. He was most recently associated with K. K. Adachi (Osaka, Japan) as president and chief executive officer of Adachi's U.S. operations. Founder and former CEO of Applied Vascular Engineering, Inc. (Nasdaq: AVEI), Kulas has also held marketing and sales positions with the Cordis Corporation (now a division of Johnson & Johnson), Mallinckrodt Interventional Cardiology, the Puritan Bennett Corp. and C.R. Bard.

As an international business development consultant with special emphasis on Europe and Japan, Kulas spearheaded the establishment of United States operations for two foreign medical products companies. The driving force behind 23 major product introductions, Kulas piloted the "user design team" concept and has supervised clinical research, regulatory submissions and product development activities domestically and in Canada, Europe and Japan. He is named on one patent and two patents pending.

Concurrent with the appointment of Mr. Kulas as President and CEO, Mr. Alvin Zidell, who had been serving as Interim President during the company's search for a President and CEO, resigned his position as Interim President. Mr. Zidell remains as a member of the Board of Directors.

MDI also announced the appointment of David Walker, also a director, to the position of Chairman of the board.

Dr. William J. Novick, Ph.D. has accepted the appointment of the company as Chairman of the Scientific Advisory Board. Dr. Novick brings over 30 years experience in technology and product development in the pharmaceutical industry, most recently as Senior Director of International Product Development for Hoechst-Roussel Pharmaceuticals, Inc. In this latter position, Dr. Novick has been responsible for the development and FDA approval of over 20 chemotherapeutic agents including antibiotics and anti-HIV drugs. Dr. Novick is currently a member of several national and federal committees which determine guidelines for use and testing (clinical and in-vitro) of anti-microbial agents.

The Board of Directors announced the resignation of William Welch, Ph.D. Now that the MDI technology (MDI-P) has progressed from basic research and development into the pre-clinical and commercialization phase, Dr. Welch has decided to pursue other interests more closely aligned with his expertise.

Mr. Paul Griesgraber has been appointed Director of Licensing and Development, and as a member of the Board. Mr. Griesgraber brings to the company experience in development and negotiating sponsorship agreements in Japan, Europe and the United States.

JAPANESE CHAPTER OF THE SCIENTIFIC ADVISORY BOARD. MDI announced the establishment of a Japanese Chapter on the Scientific Advisory Board. The following internationally renowned physicians and scientists have accepted appointments: Dr. Akito Ohmura, M.D., Professor of Anesthesiology, Teikyo

University of Medicine, Tokyo, Japan, and Professor Kitamoto, Ph.D., Chairman, Tokyo Industrial University, Tokyo, Japan. The Japanese Chapter of MDI'S Scientific Advisory Board will assist the company in an advisory capacity as the company prepares necessary regulatory and scientific applications in preparation for entering Japanese markets.

PATENTS AND PATENT APPLICATIONS. MDI announced the issuance of a receipt of a Notice of Allowance, ("NOA"), from the U.S. Patent and Trademark Office regarding the patent titled "Electrically Hydrolyzed Salines as Microbicides." This patent is a follow-on to previously issued patents covering the instrument that manufactures the company's proprietary antimicrobial agent called MDI-P. The aforementioned NOA refers to patent protection for the solution itself. As provided by the patent, not only must all future producers of MDI-P utilize the MDI electrolyzer machine, but the solution produced from that machine and any application for that solution is also protected by this latest patent.

CORPORATE HEADQUARTERS RELOCATION. MDI announced the relocation of its corporate headquarters to larger, more cost efficient space, wherein a research laboratory can be fully equipped. The move is part of a necessary plan as the company prepares for pre-clinical and pre-commercialization phases of its technologies.

ADDITIONAL FUNDING IS REQUIRED. Management intends to raise substantial additional funds in private stock offerings in the near future in order to meet its near-term funding requirements with a special emphasis in Japan. In the future, management anticipates the need to raise substantial additional funds in publicstock offerings as well. As additional funds are raised, the Company intends to commence paying salaries to its officers. The Company also intends at that time to hire additional technical and administrative personnel. The bulk of any additional funding will likely be spent on continued research, testing, and patent protection with respect to MDI-P.

SUBSEQUENT EVENTS, ADDITIONAL FUNDING. In May 1997, The Company raised \$100,000 in exchange for 200,000 shares of common stock at \$0.50 per share and warrants to purchase 200,000 shares of stock at \$1.00 per share.

PART II
OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

The Company is not currently involved in any litigation and there has been no change in any with regard to any potential legal dispute since the filing of the Company's 10KSB for the year ended December 31, 1996.

ITEM 2. CHANGES IN SECURITIES

N/A

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

N/A

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

N/A

ITEM 5. OTHER INFORMATION

N/A

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits required by Item 601 of Regulation S-B.

The following are exhibits to this Form 10-QSB.

| EXHIBIT NUMBER | DESCRIPTION |
|----------------|-------------|
| - - - - - | - - - - - |

| | |
|----|--------------------------|
| 27 | Financial Data Schedule. |
|----|--------------------------|

(b) Reports on Form 8-K

N/A

SIGNATURES

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

MEDICAL DISCOVERIES, INC.

Date: May 15, 1997

/s/ Lee F. Kulas

President and Chief Executive

Officer

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THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM MEDICAL DISCOVERIES, INC. MARCH 31, 1997 FINANCIAL STATEMENTS AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS

</LEGEND>

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<C>

| | | |
|------------------------------|-------|-------------|
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| <FISCAL-YEAR-END> | | DEC-31-1997 |
| <PERIOD-END> | | MAR-31-1997 |
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| <COMMON> | | 6,166,867 |
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