

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, 1998

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)

2985 North 935 East, Suite 9, Layton, UT 84041

(Address of principal executive offices)

(801) 771-0523

(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.

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: 23,240,567

as of April 30, 1998

Transitional Small Business Disclosure Format (check one)

Yes No
=== ===

PART I
FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

The following financial statements are filed with this report:

Balance Sheets as of March 31, 1998 (unaudited) and March 31, 1997
(unaudited)

Statements of Operations for the Three-Month Periods ended March 31, 1998
(unaudited) and March 31, 1997 (unaudited) and since inception through
March 31, 1998 (unaudited)

Statements of Cash Flows for the Three-Month Periods ended March 31, 1998
(unaudited) and March 31, 1997 (unaudited)

Notes to Unaudited Financial Statements

MEDICAL DISCOVERIES, INC.
(A DEVELOPMENT STAGE COMPANY)

BALANCE SHEET

AS OF MARCH 31, 1998 AND DECEMBER 31, 1997
(UNAUDITED)

	March 31, 1998	December 31, 1997
	-----	-----
CURRENT ASSETS		
Cash	\$ 3,033	\$ 764
Accounts receivable	19,187	30,585
Inventory	10,500	0
Prepaid expenses	6,792	10,869
	-----	-----
Total Current Assets	39,511	42,219
PROPERTY AND EQUIPMENT		
Equipment	72,304	72,304
Less: Accumulated depreciation	(27,233)	(23,507)
	-----	-----
Net Property and Equipment	45,071	48,797
OTHER ASSETS		
	2,220	3,160
Total Assets	\$ 86,803	\$ 94,176
	=====	=====
CURRENT LIABILITIES		
Accounts payable	\$1,047,764	\$ 916,734
Accrued interest	25,906	14,360
Current maturities of:		
Notes payable	101,809	102,591
Convertible notes payable	291,700	291,700
	-----	-----
Total Current Liabilities	1,467,179	1,325,385
STOCKHOLDERS' EQUITY		
Common Stock, no par value, authorized 100,000,000 shares; 23,240,567 shares issued and outstanding at March 31, 1998	6,557,317	6,507,317
Retained deficit	(7,825,193)	(7,626,026)
Subscription receivables	(112,500)	112,500
	-----	-----
Total Stockholders' Equity	(1,380,376)	(1,231,209)
	-----	-----
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 86,803	\$ 94,176
	=====	=====

MEDICAL DISCOVERIES, INC.
(A DEVELOPMENT STAGE COMPANY)

STATEMENT OF OPERATIONS

FOR THE PERIODS ENDED MARCH 31, 1998 AND MARCH 31, 1997
(UNAUDITED)

	For the three months ended March 31,		Cumulative Amounts since November 20, 1991 (date of inception)
	----- 1998	----- 1997	-----
REVENUE			
Revenue and fees	\$ 2,273	\$ 0	\$ 110,473
Interest	726	0	21,617
	-----	-----	-----
Total Revenue	2,999	0	132,090
COST OF GOODS SOLD			
	1,250	0	1,250
	-----	-----	-----
MARGIN	1,749	0	130,840
EXPENSES			
License	0	0	1,001,500
Research and development	73,825	301	1,930,701
General and administrative	112,923	161,684	4,702,380
Interest	14,168	0 (1)	157,411
	-----	-----	-----
Total Expenses	200,916	161,985	7,791,992

NET LOSS FROM OPERATIONS	(199,167)	(161,985)	(7,661,152)
OTHER INCOME / (EXPENSE)	0	(11,527)	0
LOSS BEFORE INCOME TAXES AND EXTRAORDINARY ITEM	(199,167)	(173,512)	(7,661,152)
INCOME TAXES	0	0	0
LOSS BEFORE EXTRAORDINARY ITEM	(199,167)	(175,512)	(7,661,152)
FORGIVENESS OF DEBT	0	0	1,235,536
NET INCOME	<u>\$ (199,167)</u>	<u>\$ (173,512)</u>	<u>\$ (6,425,616)</u>
INCOME / (LOSS) PER SHARE			
Loss from continuing operations	\$ (0.01)	\$ (0.01)	\$ (0.43)
Gain from debt forgiveness	0.00	0.00	0.07
Income / (loss) per share	<u>\$ (0.01)</u>	<u>\$ (0.01)</u>	<u>\$ (0.36)</u>
WEIGHTED AVERAGE NUMBER OF SHARES	<u>23,192,519</u>	<u>21,675,645</u>	<u>17,735,587</u>

(1) Interest expense is included as Other Income / (Expense) in 1Q97.

MEDICAL DISCOVERIES, INC.
(A DEVELOPMENT STAGE COMPANY)
STATEMENT OF CASH FLOWS
FOR THE PERIODS ENDED MARCH 31, 1998 AND MARCH 31, 1997
(UNAUDITED)

	For the three months ended March 31,		Cumulative Amounts since November 20, 1991 (date of inception)
	1998	1997	
OPERATING ACTIVITIES			
Net income (loss) for the period	\$ (199,167)	\$ (173,512)	\$ (6,425,616)
Add non-cash items			
Common stock issued for services and license	0	0	3,419,236
Reduction of legal costs	0	0	(130,000)
Depreciation	3,726	3,372	28,692
Loss on disposal of equipment	0	0	30,364
Gain on debt restructuring	0	0	(1,235,536)
Write-off receivables	0	0	193,965
Decrease (increase) in:			
Receivables	11,399	11,289	3,870
Inventory	(10,500)	0	(10,500)
Prepaid Expenses	4,077	4,044	(6,792)
Other assets	940	0	(2,220)
Increase (decrease) in:			
Accounts payable	131,030	(22,329)	891,855
Accrued expenses	11,546	(8,751)	47,387
Net Cash from Operations	<u>(46,949)</u>	<u>(140,869)</u>	<u>(3,195,295)</u>
INVESTING ACTIVITIES			
Purchases of equipment	0	(986)	(95,967)
Payments received on note receivable	0	0	99,414
Net Cash from Investing Activities	<u>(986)</u>	<u>(986)</u>	<u>3,447</u>
FINANCING ACTIVITIES			
Increase in notes payable	0	61,000	101,000
Payment of notes payable	(782)	(675)	(6,570)
Increase in notes payable	0	0	316,700
Equity contributed	0	0	131,374
Proceeds from issuance of common stock	50,000	80,134	2,603,159

Net Cash from Financing Activities	49,218	140,459	3,145,663
NET INCREASE / (DECREASE) IN CASH	2,269	(1,396)	764
CASH, BEGINNING PERIOD	764	25,307	0
CASH ENDING PERIOD	\$ 3,033	\$ 23,911	\$ 764

MEDICAL DISCOVERIES, INC.

NOTES TO FINANCIAL STATEMENTS
March 31, 1998

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, 1998 and the results of operations and changes in financial position for the three-month period ended March 31, 1998. The results of operations for the three months ended March 31, 1998 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.

The Company is in the process of establishing a "consumer products" division (MDI Healthcare Systems) as part of its strategy of developing certain aspects of its core technologies for commercialization. MDI recorded its first revenues from its consumer products division for the period from April 1, 1998 to May 15, 1998. MDI reduced its year-to-date general and administrative expense to \$112,923 from \$161,684 in 1Q1998 compared to 1Q1997 by increased efficiencies in its operations. Funding for on-going operations is discussed in the "Additional Funding is Required" section below.

DEVELOPMENT OF NEW/IMPROVED TECHNOLOGY. During the last quarter, the Company has continued to focus its research and development activities to further enhancing its core technologies. Chief among these efforts (which are in the process of patent applications) is the capability of developing a new generation of consumer products utilizing its "electrolyzed saline waters". These variations of the Company's patented core technologies, and resultant commercially viable products, better enable the Company to aggressively pursue new markets outside of its traditional "pharmaceutical research and development operations" with a wide variety of applications. Included among these new target markets are applications in the newly evolving skin care "cosmeceutical" industry, home water purification, and "bottled waters".

These new markets represent significant revenue generating opportunities for the Company in the near term, and the Company is presently developing the appropriate infrastructure to aggressively pursue these markets.

The Company remains committed to the pursuit of establishing MDI-P as an effective liquid chemical sterilant for the sterilization of surgical instruments, and developing MDI-P as an effective anti-bacterial, anti-viral and anti-fungal pharmaceutical.

PLANS TO FORM A NEW CONSUMER PRODUCTS DIVISION. MDI is in the final stages of establishing a new operating division focused on the commercialization of products targeted at the health and wellness, cosmetic, home water purification systems and "bottled waters" markets. The products to be marketed by this new division will be a combination of proprietary products internally developed as well as unique products sourced from strategic partners located in the United States and certain international markets.

STRATEGIC ALLIANCE. MDI has initiated discussions with a privately held company specializing in the research, development, and commercialization of proprietary products in the health care industry. It is anticipated that these discussions will conclude in the establishment of "joint venture" health care company focused on the identification, exploration, validation, development and commercialization of new innovative solutions to existing and newly emerging health care problems and opportunities.

MANAGEMENT AND SCIENTIFIC BOARD ADDITIONS. William J. Novick, Jr., Ph.D., Chief Technical Officer was promoted to the position of Vice President, and will serve as an Officer of the Corporation.

Osao Sumita, Ph.D., has joined the Company as Sr. Director, Engineering and Technology Development. Dr. Sumita has spent nearly 20 years in research and development in the field of electrolysis and related technologies. Since 1992 he has been president and founder of Coherent Technologies (Tokyo, Japan) a research and development firm specializing in the development of proprietary electrolysis technology systems. Dr. Sumita received his Doctorate from the

Tokyo Institute of Technology, Tokyo, Japan, and is the holder of several patents in the field of electrolysis. In this newly created position, Dr. Sumita will be responsible for technology development and related research activities.

Mr. Neal G. Ofiesh has recently joined the company as National Sales Director, Consumer Products. Mr. Ofiesh has been actively engaged in the sales, distribution and management of sales activities for a number of companies in the field of water purification systems, cosmetics and related consumer products. In this newly created position, Mr. Ofiesh will provide the Company with proven expertise in establishing a national distribution network for the Company's consumer products. Prior to joining the Company, Mr. Ofiesh was affiliated with the MeLaLeuca, Natural World and NSA corporations.

PATENT ACTIVITY. The Company was notified by the US Patent Office that another patent for its MDI-P technology was issued. The patent number is titled "Electrically Hydrolyzed Salines as Microbicides" and is for a microbiocidal solution for in vivo and in vitro treatment of microbial infections. This brings to six the current number of patents issued for the Company's core technologies. Additionally, the Company received notice of allowance of another patent from the US Patent Office for the use of MDI-P "Electrically Hydrolyzed Salines as Microbicides".

JAPANESE MARKET OPPORTUNITIES AND ANALYSIS. MDI is continuing discussions regarding licensing and other business development relationships with several Japanese companies. There is strong interest in the medical pharmaceutical market applications of the Company's proprietary compound, MDT-P. MDI is actively discussing potential alliances with several Japanese companies to jointly collaborate in this area using the Company's patented technologies and drawing on its experience in the medical area with its Scientific Advisory Board.

In December of 1997, MDI was invited to present an update of its research activities at the annual Functional Water Society Foundation in Tokyo, Japan. Dr. Novick, the Company's Chief Technical Officer, presented the results of the research work of Aldonna Baltch, MD and her colleagues at the Stratton VA Medical Center, Albany, New York. Dr. Baltch's in-vitro research activities have confirmed the effectiveness of MDI-P as an efficient anti-fungal compound through the complete destruction of the fungus Candida Albicans.

ADDITIONAL FUNDING IS REQUIRED. MDI needs to raise additional capital to fund its FDA and international regulatory approvals process. Additionally, each of the research and testing programs in progress continues to show promise and generate valuable scientific data, and therefore, requires appropriate levels of funding. 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 public stock 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.

FUNDING. In January 1998, the Company raised \$50,000 in exchange for 270,270 shares of common stock at \$0.1875 per share and warrants to purchase 540,540 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, 1997.

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, 1998

/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, 1998 FINANCIAL STATEMENTS AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

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