

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

FORM 10-QSB

(Mark One)

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

For the quarterly period ended June 30, 1998  
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=== 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  
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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.

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: as of July 31, 1998  
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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 June 30, 1998 (unaudited) and December 31, 1997  
(unaudited)

Statements of Operations for the Three-Month Periods ended June 30, 1998

(unaudited) and June 30, 1997 (unaudited) and the Six-Month Periods ended June 30, 1998 (unaudited) and June 30, 1997 and since inception through June 30, 1997 (unaudited).

Statements of Cash Flows for the Six-Month Periods ended June 30, 1998 (unaudited) and June 30, 1997 (unaudited) Notes to Unaudited Financial Statements

MEDICAL DISCOVERIES, INC.  
(A DEVELOPMENT STAGE COMPANY)  
BALANCE SHEET  
AS OF JUNE 30, 1998 AND DECEMBER 31, 1997  
(UNAUDITED)

	June 30, 1998	December 31, 1997
	-----	-----
<b>CURRENT ASSETS</b>		
Cash	\$ 205,949	\$ 765
Accounts receivable	11,477	30,585
Inventory	6,750	0
Prepaid expenses	2,715	10,869
	-----	-----
Total Current Assets	226,891	42,219
<b>PROPERTY AND EQUIPMENT</b>		
Equipment	76,304	72,304
Less: Accumulated depreciation	(31,027)	(23,507)
	-----	-----
Net Property and Equipment	45,277	48,797
<b>OTHER ASSETS</b>		
Investment in Regenere, Inc.	75,000	0
Deposits	2,220	3,160
Total Assets	\$ 349,388	\$ 94,176
	=====	=====
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$1,107,679	\$ 916,734
Accrued interest	20,271	14,360
Current maturities of:		
Notes payable	101,000	102,591
Convertible notes payable	291,700	291,700
	-----	-----
Total Current Liabilities	1,520,650	1,325,385
<b>STOCKHOLDERS' EQUITY</b>		
Common Stock, no par value, authorized 100,000,000 shares; 23,240,567 shares issued and outstanding at June 30, 1998	6,938,997	6,507,317
Retained deficit	(7,997,759)	(7,626,026)
Subscription receivables	(112,500)	(112,500)
	-----	-----
Total Stockholders' Equity	(1,171,262)	(1,231,209)
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
	\$ 349,388	\$ 94,176
	=====	=====

<TABLE>

MEDICAL DISCOVERIES, INC.  
(A DEVELOPMENT STAGE COMPANY)  
STATEMENT OF OPERATIONS  
FOR THE PERIODS ENDED JUNE 30, 1998 AND JUNE 30, 1997  
(UNAUDITED)

<S>	<C>	<C>	<C>	<C>	<C>
	For the three months ended June 30,	For the three months ended June 30,	For the six months ended June 30,	For the six months ended June 30,	Cumulative Amounts since November 20, 1991 (date of inception)
	-----	-----	-----	-----	-----
	1998	1997	1998	1997	
	-----	-----	-----	-----	-----
<b>REVENUE</b>					
Product sales	\$ 10,574	\$ 0	\$ 12,847	\$ 0	\$ 12,847
Clinical fees	0	0	0	0	108,200
Interest	432	0	1,158	0	22,049

Total Revenue	11,006	0	14,005	0	143,096
COST OF GOODS SOLD	3,750	0	5,000	0	5,000
GROSS MARGIN	7,256	0	9,005	0	138,096
EXPENSES					
License	0	0	0	0	1,001,500
Research and development	71,662	29,363	145,487	29,664	2,002,363
General and administrative	96,109	57,037	209,032	218,721	4,798,489
Total Expenses	167,771	86,400	354,519	248,385	7,802,352
NET LOSS FROM OPERATIONS	(160,515)	(187,488)	(345,514)	(248,385)	(7,664,256)
OTHER INCOME / (EXPENSE)	12,051	(19,703)	26,219	(31,230)	117,024
LOSS BEFORE INCOME TAXES AND EXTRAORDINARY ITEM	(172,566)	(106,103)	(371,733)	(279,615)	(7,547,232)
INCOME TAXES	0	0	0	0	0
LOSS BEFORE EXTRAORDINARY ITEM	(172,566)	(106,103)	(371,733)	(279,615)	(7,547,232)
FORGIVENESS OF DEBT	0	0	0	0	1,235,536
NET INCOME	\$ (172,566)	\$ (106,103)	\$ (371,733)	\$ (279,615)	\$ (6,311,696)
INCOME / (LOSS) PER SHARE					
Loss from continuing operations	\$ (0.01)	\$ (0.00)	\$ (0.02)	\$ (0.01)	\$ (0.42)
Gain from debt forgiveness	0.00	0.00	0.00	0.00	0.07
Income / (loss) per share	\$ (0.01)	\$ (0.00)	\$ (0.02)	\$ (0.01)	\$ (0.35)
WEIGHTED AVERAGE NUMBER OF SHARES	23,577,472	21,879,944	23,376,004	21,778,359	17,963,338

</TABLE>

MEDICAL DISCOVERIES, INC.  
(A DEVELOPMENT STAGE COMPANY)  
STATEMENT OF CASH FLOWS  
FOR THE PERIODS ENDED JUNE 30, 1998 AND JUNE 30, 1997  
(UNAUDITED)

	For the three months ended June 30,		Cumulative Amounts since November 20, 1991 (date of inception)
	1998	1997	
OPERATING ACTIVITIES			
Net income (loss) for the period	\$ (371,733)	\$ (279,615)	\$ (6,598,182)
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	7,520	7,628	32,489
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	19,109	22,485	11,580
Inventory	(6,750)	0	(6,750)
Prepaid Expenses	8,154	8,088	(2,715)
Other assets	940	(1,090)	(2,220)
Increase (decrease) in:			
Accounts payable	190,945	112,386	951,770
Accrued expenses	5,911	(16,066)	41,752
Net Cash from Operations	(145,904)	(145,824)	(3,294,250)
INVESTING ACTIVITIES			
Purchases of equipment	(4,000)	(5,082)	(99,967)
Payments received on note receivable	0	0	99,414

Investment in Regenere	(75,000)	0	75,000
Net Cash from Investing Activities	(79,000)	(5,082)	(75,553)
FINANCING ACTIVITIES			
Increase in notes payable	0	0	101,000
Payment of notes payable	(1,591)	(1,385)	(8,161)
Increase in notes payable	0	0	316,700
Equity contributed	0	0	131,374
Proceeds from issuance of common stock	431,680	147,500	3,034,839
Net Cash from Financing Activities	430,089	146,115	3,575,752
NET INCREASE / (DECREASE) IN CASH	205,185	(4,791)	205,949
CASH, BEGINNING PERIOD	764	25,306	0
CASH ENDING PERIOD	\$ 205,949	\$ 20,515	\$ 205,949

MEDICAL DISCOVERIES, INC.  
NOTES TO FINANCIAL STATEMENTS  
June 30, 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 June 30, 1998 and the results of operations and changes in financial position for the three-month period ended June 30, 1998. The results of operations for the three months ended June 30, 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.

OPERATIONS AND LIQUIDITY.

MDI had booked revenue of \$12,847 for the period from January 1, 1998 to June 30, 1998 compared to no revenue for the same period in 1997. The revenue results from initial sales of imported functional water machines. The company spent \$145,487 in research and development costs during the first six months of 1998 compared to \$29,664 for the same period in last year. The increased spending reflects the additional testing the Company is conducting on MDI-P to progress the FDA application process. MDI reduced its General and Administrative expense by 4 percent to \$209,032 from \$218,721. Funding for on-going operations is discussed in the "Additional Funding is Required" section below. The company has established a "consumer products" division (MDI HealthCare Systems) as part of its strategy of developing certain aspects of its core technologies for commercialization.

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 water". These variations of the Company's patented core technologies and resultant commercially viable products better enable the Company to aggressively pursue markets outside of its traditional pharmaceutical research and development operations. Included among these new target markets are applications; in the newly evolving skin care "Cosmeceuticals (tm)" industry, home water purification, and bottled waters.

These markets represent significant revenue opportunities in the near term, and the Company is presently developing the appropriate infrastructure to aggressively pursue this business.

The Company remains committed to its pursuit of establishing MDI-P as an effective compound targeted against the HIV/AIDS virus, developing MDI-P as an effective anti-bacterial, and anti-fungal pharmaceutical, and other applications such as the sterilization of surgical and dental instruments.

FORMATION OF A NEW CONSUMER PRODUCTS DIVISION

MDI has established a new operating division: MDI HealthCare Systems, focused on the commercialization of products targeted at the health and wellness, cosmetic, home water-purification systems and bottled water markets. The products being 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. The focus of MDI HealthCare Systems will be the marketing and sales of water purification systems

targeted at the home, food industry and industrial applications. The electrolysis based Ionizer systems are sourced under agreements with various manufacturers in Japan and Korea.

This is a first stage in a plan to eventually establish an assembly/manufacturing operation within the United States in the area of product development, manufacturing, and after sales service.

#### JOINT VENTURE.

MDI has completed a joint venture agreement with Advanced Bio-Technologies, Inc., a privately held company specializing in the research, development, and commercialization of proprietary products in the wound treatment, scar therapy and skin care industry. The new company, Regenere, Inc. ("Regenere"), was established on July 6, 1998 as a Cosmeceuticals health care company focused on the identification, exploration, validation, development and commercialization of innovative solutions for scar therapy, wound healing, and skin care and repair.

Medical Discoveries, Inc. owns a 50% interest in Regenere. Lee F. Kulas, MDI President and CEO has been named a Director and Chairman of the Board of Regenere. Mr. Alvin Zidell, also a Director of MDI, has also been named a Director of Regenere.

#### EXCLUSIVE DISTRIBUTION AGREEMENT AWARDED TO MDI

On July 31, 1998, Medical Discoveries, Inc. entered into an exclusive distribution agreement with Hattori Seshi Company for distribution of its products in the following markets: United States, Europe, South America, India, and Canada.

Hattori Seshi Company, located in Japan, is a proprietary manufacturer of certain cosmetic and skin care products targeted at the scar therapy and wound healing markets. These products will play an integral role in the new joint venture, Regenere, as well as MDI HealthCare System division.

In addition, both MDI and Hattori Seshi have initiated joint development activities using the combined proprietary technologies of each company in developing a new generation of products aimed at the Cosmeceuticals markets.

#### MANAGEMENT ADDITIONS

Scott Wood was named to the position of Chief Financial Officer and will serve as an Officer of the Corporation. Mr. Wood has extensive experience in emerging companies and has a background in distribution, manufacturing, and technology development.

#### PATENT ACTIVITY

The Company has announced the filing of a new patent in Japan covering a broad range of claims for its core technologies. The Company will file similar patents in the USA in the near future.

#### JAPANESE MARKET OPPORTUNITES AND ANALYSIS.

MDI is continuing discussions regarding licensing and other business development relationships with several Japanese and Korean companies.

There continues to be strong interest in the medical pharmaceutical market applications of the Company's proprietary compound, MDI-P for applications in Japanese and other foreign markets. MDI is actively discussing potential alliances with several of these 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

#### FUNDING

In June 1998, the Company raised \$300,000 in exchange for 400,000 shares of common stock at a price of \$0.75 per share, warrants to purchase 800,000 shares of stock at prices ranging from \$0.75 to \$1.50 per share, and certain exclusive limited distribution rights for the Company's own products as well as products from Regenere. A private financial group consisting of USA-based medical doctors representing a variety of specialties provided the funding. Upon completion of the entire funding package contemplated by the funding arrangement, MDI would raise up to \$3.5 million from the private financial group. In connection with this funding, MDI will receive additional investment consulting services from an investment banking concern in exchange for 120,000 warrants to purchase the Company's common stock at \$0.001 per share, and 500,000 warrants to purchase the Company's common stock at prices ranging from \$0.50 to \$0.75 per share. The bulk of this funding will be spent on validation testing required for submission to the FDA of an Investigational New Drug application (IND) for MDI-P targeted against the HIV/AIDS virus.

Additionally, the Company is continuing a rigorous approach in each of its research and testing programs that continue to show promise and generate

valuable scientific data for eventual FDA approvals submission.

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 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.

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: August 13, 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. JUNE 30, 1998 FINANCIAL STATEMENTS AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS

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