

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 Sept. 30, 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. 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: 24,240,634

as of October 31, 1998

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 Sept. 30, 1998 (unaudited) and December 31, 1997
(unaudited).

Statements of Operations for the Three-Month Periods ended Sept. 30, 1998 (unaudited) and Sept. 30, 1997 (unaudited) and the Nine-Month Periods ended Sept. 30, 1998 (unaudited) and Sept. 30, 1997 and since inception through Sept. 30, 1997 (unaudited).

Statements of Cash Flows for the Nine-Month Periods ended Sept. 30, 1998 (unaudited) and Sept. 30, 1997 (unaudited).

Notes to Unaudited Financial Statements.

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

	Sept. 30, 1998	December 31, 1997
	-----	-----
CURRENT ASSETS		
Cash	\$ 151,858	\$ 765
Accounts receivable	3,761	30,585
Inventory	134,500	0
Prepaid expenses	15,089	10,869
	-----	-----
Total Current Assets	305,208	42,219
PROPERTY AND EQUIPMENT		
Equipment	105,248	72,304
Less: Accumulated depreciation	(34,492)	(23,507)
	-----	-----
Net Property and Equipment	70,756	48,797
OTHER ASSETS		
Deposits	900	3,160
Total Assets	\$ 376,864	\$ 94,176
	=====	=====
CURRENT LIABILITIES		
Accounts payable	\$1,302,858	\$ 916,734
Accrued interest	32,072	14,360
Current maturities of:		
Notes payable	106,000	102,591
Convertible notes payable	291,700	291,700
	-----	-----
Total Current Liabilities	1,732,630	1,325,385
STOCKHOLDERS' EQUITY		
Common Stock, no par value, authorized 100,000,000 shares; 24,240,634 shares issued and outstanding at Sept. 30, 1998	7,138,997	6,507,317
Retained deficit	(8,382,263)	(7,626,026)
Subscription receivables	(112,500)	(112,500)
	-----	-----
Total Stockholders' Equity	(1,355,766)	(1,231,209)
	-----	-----
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 376,864	\$ 94,176
	=====	=====

<TABLE>
<CAPTION>

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

	For the three months ended Sept. 30,		For the nine month ended Sept. 30,		Cumulative Amounts since November 20, 1991 (date of inception)
	-----	-----	-----	-----	-----
	1998	1997	1998	1997	1991
	-----	-----	-----	-----	-----
REVENUE					
<S>	<C>	<C>	<C>	<C>	<C>
Product sales	\$ 4,837	\$ 0	\$ 17,684	\$ 0	\$ 17,684

Clinical fees	0	0	0	0	108,200
Interest	1,357	0	2,515	0	23,406
	-----	-----	-----	-----	-----
Total Revenue	6,194	0	20,199	0	149,290
COST OF GOODS SOLD	2,250	0	7,250	0	7,250
	-----	-----	-----	-----	-----
GROSS MARGIN	3,944	0	12,949	0	142,040
EXPENSES					
License	0	0	0	0	1,001,500
Research and development	131,530	50,407	277,017	30,071	2,133,893
General and administrative	243,679	79,577	452,711	298,298	5,042,168
	-----	-----	-----	-----	-----
Total Expenses	375,209	129,984	729,728	328,369	8,177,561
	-----	-----	-----	-----	-----
NET LOSS FROM OPERATIONS	(371,265)	(129,984)	(716,779)	(328,369)	(8,035,521)
OTHER INCOME / (EXPENSE)	(13,237)	(10,775)	(39,459)	(42,005)	103,787
	-----	-----	-----	-----	-----
LOSS BEFORE INCOME TAXES AND EXTRAORDINARY ITEM	(384,502)	(140,759)	(756,238)	(370,374)	(7,931,734)
INCOME TAXES	0	0	0	0	0
	-----	-----	-----	-----	-----
LOSS BEFORE EXTRAORDINARY ITEM	(384,502)	(140,759)	(756,235)	(370,374)	(7,931,734)
FORGIVENESS OF DEBT	0	0	0	0	1,235,536
	-----	-----	-----	-----	-----
NET INCOME	\$ (384,502)	\$ (140,759)	\$ (756,235)	\$ (370,374)	\$ (6,696,198)
	=====	=====	=====	=====	=====
INCOME / (LOSS) PER SHARE					
Loss from continuing operations	\$ (0.02)	\$ (0.01)	\$ (0.03)	\$ (0.01)	\$ (0.44)
Gain from debt forgiveness	0.00	0.00	0.00	0.00	0.07
	-----	-----	-----	-----	-----
Income / (loss) per share	\$ (0.02)	\$ (0.01)	\$ (0.03)	\$ (0.01)	\$ (0.37)
	=====	=====	=====	=====	=====
WEIGHTED AVERAGE NUMBER OF SHARES	23,997,410	22,060,975	23,897,943	21,873,600	18,184,851
	=====	=====	=====	=====	=====

</TABLE>

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

	For the nine months ended June 30,		Cumulative amounts since November 20, 1991 (date of inception)
	1998	1997	
	-----	-----	-----
OPERATING ACTIVITIES			
Net income (loss) for the period	\$ (756,237)	\$ (266,067)	\$ (6,982,686)
Add non-cash items			
Common stock issued for services and license	0	313,508	3,419,236
Reduction of legal costs	0	0	(130,000)
Depreciation	10,985	9,311	35,951
Loss on disposal of equipment	0	0	30,364
Gain on debt restructuring	0	(673,486)	(1,235,536)
Write-off receivables	0	0	193,965
Decrease (increase) in:			
Receivables	26,825	31,566	19,296
Inventory	(134,500)	0	(134,500)
Prepaid Expenses	(4,220)	51,035	(15,089)
Other assets	2,260	0	(900)
Increase (decrease) in:			
Accounts payable	386,124	52,227	1,146,949
Accrued expenses	17,712	9,678	53,553
	-----	-----	-----
Net Cash from Operations	(222,172)	(472,228)	(3,599,397)

INVESTING ACTIVITIES			
Purchases of equipment	(32,944)	(19,611)	(128,911)
Payments received on note receivable	0	0	99,414
	-----	-----	-----
Net Cash from Investing Activities	(32,944)	(19,611)	(29,497)
FINANCING ACTIVITIES			
Increase in notes payable	0	12,545	101,000
Payment of notes payable	(3,409)	0	(3,161)
Increase in notes payable	0	0	316,700
Equity contributed	0	0	131,374
Proceeds from issuance of common stock	631,680	485,000	3,234,839
	-----	-----	-----
Net Cash from Financing Activities	635,089	497,545	3,780,752
	-----	-----	-----
NET INCREASE / (DECREASE) IN CASH	151,094	5,706)	151,858
CASH, BEGINNING PERIOD	764	37,833	0
	-----	-----	-----
CASH ENDING PERIOD	\$ 151,858	\$ 43,539	\$ 151,858
	=====	=====	=====

MEDICAL DISCOVERIES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Sept. 30, 1998

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

The unaudited financial statements include the accounts of Medical Discoveries, Inc. and its subsidiary, MDI HealthCare Systems, Inc. and include all adjustments which are, in the opinion of management, necessary to present fairly the financial position as of Sept. 30, 1998 and the results of operations and changes in financial position for the three-month period ended Sept. 30, 1998. The results of operations for the three months ended Sept. 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 \$17,684 for the period from January 1, 1998 to Sept. 30, 1998 compared to no revenue for the same period in 1997. The revenue results from preliminary market preference testing of Electrolyzed Ionizer Water purification devices targeted at the home health care markets. The company spent \$277,017 in research and development costs during the first nine months of 1998 compared to \$30,071 for the same period in last year. The increased spending reflects the final stage testing of the Company's novel drug "MDI-P" targeted at the HIV/AIDS disease in preparation for filing an Investigational New Drug Application ("IND") with the Food and Drug Administration ("FDA"). MDI increased its General and Administrative expense by 52 percent to \$452,711 from \$298,298. This increase is mainly a result of the launch of the MDI HealthCare Systems, Inc. subsidiary. In addition to the start-up expenses, the company has purchased inventory valued at \$130,000 and production equipment for \$24,855 for the new company. The company is currently in negotiations related to convertible notes payables totaling \$291,700 which mature at various dates from October 12, 1998 to February 12, 1998. MDI seeks to extend payment terms on these notes. Funding for on-going operations and current maturities of notes payable is discussed in the "Additional Funding is Required" section below.

TECHNOLOGY UPDATE

MDI continues validation testing of its novel drug "MDI-P" targeted at the HIV/AIDS disease. In testing during the last quarter, MDI-P was shown to be capable of killing HIV in cell cultures without mortality to the cells. In addition, toxicity studies have been initiated and a final report will be available by the second quarter 1999. As a pre-cursor to an IND application at the FDA, MDI has also initiated microbiology studies. These studies should be completed by February 1999. Before an IND can be progressed, the Company will need to complete more in-vitro HIV studies and chemical characterization studies. The Company anticipates these studies will be completed and that an IND can be filed during the second quarter of 1999. If the FDA accepts the IND, MDI will be able to begin clinical trials in the third quarter of 1999. Progress of the Company's plan for submission to the FDA of an IND Application depends on the continued success of the toxicity, microbiology, studies and the completion of the chemical characterization work and sufficient funding to complete testing. See "Additional Funding Required" section below. While results to date

continue to show promise, the Company can provide no assurance the technology will eventually be proven.

JOINT VENTURE ACTIVITIES

MDI entered into a Joint Venture Agreement in July 1998 with Advanced Bio-Technologies, Inc. ("ABT"). MDI and ABT formed a joint venture company named Regenere, Inc. to pursue certain targeted markets in the skin care cosmeceuticals area.

Regenere, Inc., a subsidiary of Medical Discoveries, Inc. has retained Nevada counsel to enforce its rights under the Joint Venture Agreement with Advanced BioTechnologies, Inc. to account for proceeds delivered to former officers and directors and for a declaration from the courts to its rights in the matter.

Existing management of Regenere Inc. does not believe that the lawsuit will affect the Company's ability to achieve its Business Plan, and that this lawsuit will not affect the ongoing activities of Medical Discoveries, Inc., which is not a party to the action.

NEW CONSUMER PRODUCTS SUBSIDIARY

MDI's new operating division, MDI HealthCare Systems, has been established as a separate corporation named MDI HealthCare Systems, Inc. ("MDI-HCS"). MDI-HCS is a wholly owned subsidiary of MDI. The establishment of MDI-HCS as a separate corporation allows MDI-HCS to develop a separate corporate identity consistent with the needs of the cosmeceuticals health care industry focused on the identification, exploration, validation, development and commercialization of innovative solutions for scar therapy, wound healing, and skin care and repair. This strategy is consistent with the Company's intention to utilize certain of its proprietary technologies, intellectual property and key personnel resources to enter less restrictive consumer markets which offer rapid revenue producing opportunities. MDI-HCS anticipates a first quarter 1999 product launch of its InvisiScar (tm), Aqua-Cleanse (tm), and Beautification Face Mask (tm) product lines.

Jack Kushner has joined MDI-HCS as Vice-President, Research & Development. Mr. Kushner is responsible for the development of a number of wound care products and provides a new dimension to the Company's consumer products subsidiary. MDI-HCS is negotiating various distribution agreements for its products that should be completed during the fourth quarter of 1998 and the first quarter of 1999. The Company is developing production capacity and a distribution channel. The success of MDI-HCS depends on the Company's ability to properly finance the product launch and the response of competitive products. See "Additional Funding Required" section below.

PATENT ACTIVITY

The Company has filed an additional patent with the US Patent and Trademark Office on newly developed electrolysis technology that has been developed by the Japan-based research and development team.

FUNDING

In September 1998, the Company raised \$200,000 in exchange for 266,667 shares of common stock at a price of \$0.75 per share, warrants to purchase 533,334 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 MDI-HCS. A private financial group consisting of USA-based medical doctors representing a variety of specialties provided the funding. In connection with this funding, MDI will receive additional investment consulting services from an investment banking concern in exchange for 80,000 warrants to purchase the Company's common stock at \$0.001 per share, and 333,333 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 IND application for MDI-P targeted against the HIV/AIDS virus and to meet the cash requirements of MDI-HCS.

MDI TRUST FUND NOTES. The company has various notes totaling \$289,200 with due dates ranging from October 11, 1998 to February 11, 1999 due to the MDI Investment Trust. At the request of the beneficiaries of the Trust, MDI has arranged for extended payment terms of the notes to be paid directly to the beneficiaries of the Trust. MDI will need to raise an additional \$289,200 to repay the beneficiaries over the next three months.

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. In the future, management anticipates the need to raise substantial additional funds in public stock offerings as well. The funds to be raised will be used in the following areas: 1) submission of an

IND Application with the FDA for it novel Anti-HIV/AIDS drug, 2) the launch of MDI-HCS, 3) payment of the MDI Trust Fund obligations, 4) commencement of payment of salaries to Company personnel, and 5) at such time as funds become available, the prior debts of the company.

PART II
OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

Regenere, Inc., a subsidiary of Medical Discoveries, Inc. has commenced legal action against Advanced Bio-Technologies, Inc. its former Joint Venture partner in order to enforce its rights under the Joint Venture Agreement with Advanced Bio-Technologies, Inc. to account for proceeds delivered to former officers and directors and for a declaration from the courts to its rights in the matter. Medical Discoveries, Inc, is not a party to the action.

The company anticipates no other litigation and no other litigation is pending.

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: November 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. SEPTEMBER 30, 1998 FINANCIAL STATEMENTS AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

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