

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 March 31, 1999

=== 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: 26,473,625

as of April 30, 1999

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 Sheet as of March 31, 1999 (unaudited) and December 31, 1998
(unaudited)

Statements of Operations for the Three-Month Periods ended March 31, 1999 (unaudited) and March 31, 1998 (unaudited) and since inception through March 31, 1999 (unaudited)

Statements of Cash Flows for the Three-Month Periods ended March 31, 1999 (unaudited) and March 31, 1998 (unaudited) and since inception through March 31, 1999 (unaudited)

Notes to Unaudited Financial Statements

MEDICAL DISCOVERIES, INC.
(A DEVELOPMENT STAGE COMPANY)
CONDENSED CONSOLIDATED BALANCE SHEET
AS OF MARCH 31, 1999 AND MARCH 31, 1998
(UNAUDITED)

| | March 31, 1999 | December 31, 1998 |
|---|----------------|-------------------|
| | ----- | ----- |
| CURRENT ASSETS | | |
| Cash | \$ 32,702 | \$ 84,847 |
| Accounts receivable | 2,921 | 2,716 |
| Inventory | 165,698 | 158,225 |
| Prepaid expenses | 6,862 | 10,973 |
| | ----- | ----- |
| Total Current Assets | 208,183 | 256,761 |
| PROPERTY AND EQUIPMENT | | |
| Equipment | 108,521 | 108,521 |
| Less: Accumulated depreciation | (43,222) | (39,610) |
| | ----- | ----- |
| Net Property and Equipment | 65,299 | 68,911 |
| OTHER ASSETS | | |
| | 900 | 1,409 |
| | ----- | ----- |
| Total Assets | \$ 274,382 | \$ 327,081 |
| | ===== | ===== |
| CURRENT LIABILITIES | | |
| Accounts payable | \$ 1,454,165 | \$ 1,399,414 |
| Accrued interest | 58,361 | 44,129 |
| Current maturities of: | | |
| Notes payable | 296,717 | 191,717 |
| Convertible notes payable | 200,983 | 250,983 |
| | ----- | ----- |
| Total Current Liabilities | 2,010,226 | 1,886,246 |
| STOCKHOLDERS' EQUITY | | |
| Common Stock, no par value, authorized 100,000,000 shares; 26,473,625 shares and 26,373,625 shares issued and outstanding at March 31, 1999 and December 31, 1998, respectively | 9,761,250 | 9,661,250 |
| Retained deficit | (11,314,594) | (11,107,915) |
| Subscription receivables | (112,500) | 112,500 |
| | ----- | ----- |
| Total Stockholders' Equity | (1,735,844) | (1,559,165) |
| | ----- | ----- |
| TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY | \$ 274,382 | \$ 327,081 |
| | ===== | ===== |

MEDICAL DISCOVERIES, INC.
(A DEVELOPMENT STAGE COMPANY)
CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS
FOR THE PERIODS ENDED MARCH 31, 1999 AND MARCH 31, 1998
(UNAUDITED)

| | For the three months ended March 31, | | Cumulative Amounts since November 20, 1991 (date of inception) |
|------------------|---|----------|--|
| | ----- | ----- | ----- |
| | 1999 | 1998 | |
| | ----- | ----- | ----- |
| REVENUE | | | |
| Revenue and fees | \$ 0 | \$ 2,273 | \$ 126,609 |
| Interest | 0 | 726 | 23,406 |
| | ----- | ----- | ----- |
| Total Revenue | 0 | 2,999 | 150,015 |
| EXPENSES | | | |
| Cost of Sales | \$ 0 | \$ 1,250 | \$ 7,750 |
| License | 0 | 0 | 1,001,500 |

| | | | |
|--|--------------|--------------|----------------|
| Research and development | 58,637 | 73,825 | 2,330,928 |
| General and administrative | 103,647 | 112,923 | 7,721,167 |
| Interest | 44,394 | 14,168 | 239,222 |
| | ----- | ----- | ----- |
| Total Expenses | 206,678 | 202,166 | 11,300,567 |
| | ----- | ----- | ----- |
| LOSS BEFORE INCOME TAXES AND EXTRAORDINARY ITEM | (206,678) | (199,167) | (11,150,552) |
| | ----- | ----- | ----- |
| INCOME TAXES | 0 | 0 | 0 |
| | ----- | ----- | ----- |
| LOSS BEFORE EXTRAORDINARY ITEM | (206,678) | (199,167) | (11,150,552) |
| | ----- | ----- | ----- |
| FORGIVENESS OF DEBT | 0 | 0 | 1,235,536 |
| | ----- | ----- | ----- |
| NET INCOME | \$ (206,678) | \$ (199,167) | \$ (9,915,016) |
| | ===== | ===== | ===== |
| INCOME / (LOSS) PER SHARE | | | |
| Loss from continuing operations | \$ (0.01) | \$ (0.01) | \$ (0.60) |
| Gain from debt forgiveness | 0.00 | 0.00 | 0.07 |
| | ----- | ----- | ----- |
| Income / (loss) per share | \$ (0.01) | \$ (0.01) | \$ (0.53) |
| | ===== | ===== | ===== |
| WEIGHTED AVERAGE NUMBER OF SHARES | 26,395,847 | 23,192,519 | 18,734,836 |
| | ===== | ===== | ===== |

MEDICAL DISCOVERIES, INC.
 (A DEVELOPMENT STAGE COMPANY)
 CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
 FOR THE PERIODS ENDED MARCH 31, 1999 AND MARCH 31, 1998
 (UNAUDITED)

| | For the three months ended March 31, | | Cumulative Amounts since November 20, 1991 (date of inception) |
|---|---|---------------|--|
| | ----- 1999 | ----- 1998 | ----- |
| | ----- | ----- | ----- |
| OPERATING ACTIVITIES | | | |
| Net income (loss) for the period | \$ (206,679) | \$ (199,167) | \$ (9,915,017) |
| Add non-cash items | | | |
| Common stock options issued for services | | | 2,336,303 |
| Common stock issued for services and license | 30,000 | 0 | 3,559,986 |
| Reduction of legal costs | 0 | 0 | (130,000) |
| Depreciation | 3,612 | 3,726 | 44,681 |
| 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 | (205) | 11,289 | 10,450 |
| Inventory | (7,473) | (10,500) | (165,698) |
| Prepaid Expenses | 4,111 | 4,077 | (6,862) |
| Other assets | 509 | 940 | (900) |
| Increase (decrease) in: | | | |
| Accounts payable | 85,773 | (131,030) | 1,298,256 |
| Accrued expenses | (16,793) | 11,546 | 79,842 |
| | ----- | ----- | ----- |
| Net Cash from Operations | (107,145) | (46,949) | (3,921,066) |
| INVESTING ACTIVITIES | | | |
| Purchases of equipment | 0 | 0 | (132,184) |
| Payments received on note receivable | 0 | 0 | 130,000 |
| | ----- | ----- | ----- |
| Net Cash from Investing Activities | 0 | 0 | (2,184) |
| FINANCING ACTIVITIES | | | |
| Increase in notes payable | 105,000 | 0 | 351,806 |
| Payment of notes payable | 50,000 | (782) | (97,287) |
| Increase in notes payable | 0 | 0 | 316,700 |
| Equity contributed | 0 | 0 | 131,374 |
| Proceeds from issuance of | | | |

| | | | |
|---------------------------------------|-----------|----------|-----------|
| common stock | 0 | 50,000 | 3,253,359 |
| | ----- | ----- | ----- |
| Net Cash from Financing Activities | 55,000 | 49,218 | 3,955,952 |
| | ----- | ----- | ----- |
| NET INCREASE / (DECREASE) IN CASH | (52,145) | 2,269 | 32,702 |
| | ----- | ----- | ----- |
| CASH, BEGINNING PERIOD | 84,847 | 764 | 0 |
| | ----- | ----- | ----- |
| CASH ENDING PERIOD | \$ 32,702 | \$ 3,033 | \$ 32,702 |
| | ===== | ===== | ===== |

MEDICAL DISCOVERIES, INC.

NOTES TO FINANCIAL STATEMENTS
March 31, 1999

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, 1999 and the results of operations and changes in financial position for the three-month period ended March 31, 1999. The results of operations for the three months ended March 31, 1999 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 has no revenue for the period from January 1, 1999 to March 31, 1999 compared to \$2,278 in revenue for the same period in 1998. The revenue in 1Q 1998 results from initial sales of imported functional water machines, which product line was subsequently discontinued by the Company. MDI spent \$ 58,637 in research and development costs during the first three months of 1999 compared to \$73,825 for the same period in last year. The decreased spending reflects the reduced level of testing the Company is conducting while awaiting additional funds. MDI reduced its General and Administrative expense by 8 percent to \$103,647 from \$112,923. Funding for on-going operations is discussed in the "Additional Funding is Required" section below.

PHARMACEUTICAL DRUG DISCOVERY AND DEVELOPMENT ACTIVITIES

MDI has completed a series of validation testing at the Dana-Faber Cancer Institute, a Harvard Medical School teaching Affiliate and National Institute of Health (NIH) approved HIV/AIDS Testing Laboratory.

These tests confirmed and extended previous research and testing which demonstrated that MDI-P is shown to be capable of killing HIV in cell cultures without mortality to the cells.

A six-month Research Grant with the Dana-Farber Cancer Institute to further extend and confirm the anti -HIV/AIDS activity of MDI-P is in progress. In this Research, MDI-P is being analyzed for effectiveness in killing laboratory strains of HIV-1; clinical specimens of HIV; and resistant strains of HIV-1. These test results continue to support the effectiveness of MDI-P in killing the HIV Virus.

During its current research testing, the Company has become aware of the need to address certain technical issues regarding the electrolysis equipment used to produce MDI-P during initial manufacture.

MDI has temporarily suspended validation testing at the Dana-Farber Cancer Institute of its novel drug "MDI-P" targeted at the HIV/AIDS disease due to certain technical issues. Although the testing performed during the last quarter, which demonstrated MDI-P to be capable of killing HIV in cell cultures without mortality to the cells, remains valid, the Company has decided to temporarily suspend further investigation until such time as these technical issues are resolved. Work is already in progress to develop a permanent solution to these minor technical issues.

Toxicology studies initiated in October of 1998 were completed during the first quarter. A final report will be available upon completion by the Company of final payments to the testing Laboratory. MDI has also initiated microbiology studies during the first quarter; however, these studies have been suspended pending availability of appropriate levels of funding.

Progress of the Company's plan for submission to the FDA of an IND Application has been delayed, and continuation depends on the ability of the Company to successfully address certain technical issues, and the ability of the Company to obtain sufficient funding enabling the completion of the toxicity, microbiology,

and chemical characterization studies in various stages of progress. See "Additional Funding is Required" section below. While results to date continue to show promise, the Company can provide no assurance the technology will eventually be proven.

MDI HEALTHCARE SYSTEMS, INC. CONSUMER PRODUCTS SUBSIDIARY

MDI's operating division, MDI HealthCare Systems, Inc., (MDI-HCS) is focused on the identification, exploration, validation, development, and commercialization of innovative solutions for scar therapy, wound healing, and skin care and repair.

InvisiScar(TM), an innovative topical silicone gel, and AquaCleanse (TM), an electrolysis technology based disinfecting cleansing pad, have enabled the Company to enter the worldwide \$3.5 billion skin care market. In addition, a third product, the Beautification Facemask (TM), enables the Company to enter the anti-aging, facial beautification market. These products are proprietary to the Company, utilize a variety of its core technologies and position the Company for strong revenue potential in 1999 and the next millennium.

During the first quarter, MDI-HCS launched its innovative scar treatment products InvisiScar and AquaCleanse, into the very large and potentially lucrative Brazilian market. The Company has entered into an exclusive distribution agreement. This exclusive distribution agreement calls for minimum purchases of the MDI-HCS in the range of \$1 million.

The success of MDT-HCS depends on the Company's ability to properly finance the product launch and the response of competitive products. See "Additional Funding is Required" section below.

RESEARCH AND DEVELOPMENT ACTIVITIES, JAPAN

In addition to its novel drug, MDI-P, and Cosmeceuticals product development and commercialization accomplishments, the Company continues its discovery and development activities for electrolysis technologies in its Tokyo, Japan based Research and Development Group. MDI's Team Japan is to identify additional applications for the Company's electrolysis based technologies, and develop appropriate technological innovations for rapid market entry. Currently, the Company is investigating several resultant product development activities which, if proven, may lead to additional revenue producing opportunities.

LIQUIDITY AND FINANCIAL RESOURCES

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 its 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.

YEAR 2000 ISSUE. The Company is aware of the issues associated with programming codes in existing computer systems as the millennium (year 2000) approaches. The Company has completed the upgrading of its design engineering software and believes, but can give no assurance, that this software is year 2000 compliant. However, the accounting and material management system is not compliant. The Company has conducted preliminary research into replacement accounting and material management system. The Company plans to acquire and implement a new system in the third quarter 1999. If the new accounting and material management system is not implemented as planned, the Company could be adversely affected beginning in the year 2000 since many computer applications could fail.

FORWARD-LOOKING STATEMENTS. Certain matters discussed in this Report are "forward-looking statements" intended to qualify for the safe harbors from liability established by Section 27A of the Securities Act and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). These forward-looking statements can generally be identified as such because the context of the statement will include words such as the Company "believes," "anticipates," "expects" or words of similar import. Similarly, statements that describe the Company's future plans, objectives or goals are also forward-looking statements. Such statements may address future events and conditions concerning, among other things, the Company's results of operations and financial condition; the consummation of acquisition and financing transactions and the effect thereof on the Company's business; capital expenditures; litigation; regulatory matters; and the Company's plans and objectives for future operations and expansion. Any such forward-looking statements would be subject to the risks and uncertainties that could cause actual results of operations, financial condition, acquisitions, financing transactions, operations, expenditures, expansion and other events to differ materially from those expressed or implied in such forward-looking statements. Any such forward-looking statements would be subject to a number of assumptions

regarding, among other things, future economic, competitive and market conditions generally. Such assumptions would be based on facts and conditions as they exist at the time such statements are made as well as predictions as to future facts and conditions, the accurate prediction of which may be difficult and involve the assessment of events beyond the Company's control. Further, the Company's business is subject to a number of risks that would affect any such forward-looking statements. These risks and uncertainties include, but are not limited to, the ability of the Company to commercialize its technology; product demand and industry pricing; the ability of the Company to obtain patent protection for its technology; developments in environmental legislation and regulation; the ability of the company to obtain future financing on favorable terms; and other circumstances affecting anticipated revenues and costs. These risks and uncertainties could cause actual results of the Company to differ materially from those projected or implied by such forward-looking statements.

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, 1998.

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, 1999 FINANCIAL STATEMENTS AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS

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